MONEY AND BANKING IN JAPAN

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By

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Former Minister of Economic Affairs of Siam

With an Introduction by

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INTRODUCTION

MR. PHRA SARASAS, former Minister of Economic Affairs of Siam, taking a keen interest in the development of Japan in recent years, has in the course of two years of his stay pursued researches with regard to the economic and financial condition of the country. The result of this assiduous work is this present volume, *Money and Banking in Japan*. Trusting that this book will amply answer the demand generally felt among foreign students for an English work covering the whole financial and banking system of Japan, I take pleasure in commending it to the public.

PRINCE FUMIMARO KONOYE.

(*Traduction*)

Le 12 Novembre, 1937.

CHER MONSIEUR,

Je m'empresse de vous accuser réception de votre lettre en date du 18 Octobre et de votre manuscrit du livre intitulé *Money and Banking in Japan.*

Veuillez accepter mes plus chaleureuses félicitations pour votre œuvre, fruit de votre constant effort pendant les deux années de votre séjour à Tokyo.

C'est pour moi un vif plaisir de constater que la situation économique et financière du Japon puisse être presentée au monde par une personne aussi compétente que vous ayant la plus grande sympathie à l'égard du peuple japonais.

Formant mes vœux les plus sincères pour le succès de votre publication, je vous prie d'agréer, cher monsieur, l'expression de mes sentiments distingués.

Signé : K. HIROTA,
Ministre des Affaires Étrangères.

Mr. Phra Sarasas.

PREFACE

KEENLY interested in the economic and financial policy which has worked wonders in Japan I have spent two years in studying the system on the spot.

Having no knowledge of the Japanese language I encountered great difficulty owing to the lack of literature dealing with this matter. My research, therefore, has called for a good deal of translation from Japanese documents, of personal consultations and of considerable searching into past records, in which work I have been ably assisted by the Japanese authorities concerned.

During my stay in Japan I came across many foreigners who, having the same object, could only pursue their study with much difficulty on account of the same drawback.

So far as I have been able to ascertain there exists no treatise dealing entirely and especially with Japanese money and banking in either English or French; the present work is therefore produced in the hope that it may fill that gap, and that it may be helpful to those who, like myself, desire to explore this subject.

This book can be said to have grown out of a series of studies for my especial and personal requirements and to have developed primarily out of my curiosity. Consequently it is merely a reproduction of part of my memorandum on the study of economic and financial developments of Japan in so far as that subject-matter appears to one whose interest is in the workings of the financial policy from the Government standpoint.

Although the classical approach has been followed, all matters of technical detail and legal regulation have been omitted from this book with a view to enabling the reader to see the financial system as a co-ordinated organisation and to appreciate the problems with which it is faced.

This book does not pretend to be a history of money and banking in Japan, hence it lays no claim to completeness. However, its shortcomings will be pardoned by the considerate reader on the ground of limited time and material.

This is a work of research and not of exposition; I have, therefore, availed myself freely of the ideas and labours of others, together with views and data gathered from practical men at work.

It may seem somewhat audacious to try to describe within the limits of a single volume the workings of such a gigantic machine as the money and banking system of a great nation. But, even though the time and labour in collecting and digesting the material are as great for a condensed as for an extended treatise, I believe that an assemblage of the most important measures, embodied within a compass which would not require more time for its perusal than a busy man can afford, is more needed and better meets the general requirement.

Such a treatise brings to a much wider view an insight into the workings of credit, banking, foreign exchange and public finance of Japan and makes possible a comparative study which throws light on the successes and failures in affairs of stupendous importance and magnitude.

Adam Smith remarks with indignation: " Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades and to consider their gain as its own loss. Commerce which ought naturally to be among nations as among individuals a bond of union and friendship, has become the most fertile source of discord and animosity."

It became evident to the author that a book which will throw light on the difficult position of Japan (which claims a place in the sun), her problems, her hardships, may contribute to a right understanding and a fair sympathy which will pave the way to international accord and amity.

For this aim and purpose the book needs not only relevant facts but also a clear and candid presentation of the true aim and intention of this nation together with the principles underlying these facts in order that it may make at once a constructive as well as an objective study.

I should like to acknowledge my obligation to Their Excellencies the Ministers for Foreign Affairs, Finance, Commerce and Industry, and to the Presidents of various banks for their valuable counsel and aid.

In particular I am indebted to Mr. Seihin Ikeda, senior managing director of Mitsui Holding Company (afterwards Governor of the Bank of Japan), for his advice and information. His unfailing co-operation and assistance have made possible the fulfilment of my desire.

I wish also to thank Messrs. Juichi Tsushima, Vice-Minister

of Finance; Shinji Yoshino, Vice-Minister of Commerce and Industry; Eigo Fukai, Governor of the Bank of Japan; Eiichi Baba, President of Hypothec Bank (afterwards Minister of Finance); Toyotaro Yuki, President of Industrial Bank (afterwards Minister of Finance succeeding Dr. Baba); Kenji Kodama, President of Yokohama Specie Bank; Hirozo Mori, President of Tokyo Clearing House; Naojiro Kikumoto, President of Mitsui Bank; Nakaji Kajiwara, President of Tokyo Stock Exchange; Kenjiro Kaneko, Managing Director of Mitsui Gomei Kaisha; Kosaku Sugiura, Controller of the Bank of Japan; Shozo Shimasue, Director of the Business Department of the Bank of Japan; Munema Morita, Secretary-General of Tokyo Bankers' Association; Takeo Miyahara, Head of Siam Room, who rendered me various assistance to facilitate my study.

Last but not least I owe a debt of gratitude to Messrs. Suiichi Aoki and Rinichiro Sugiyama, both of the Research Department of Mitsui Bank, for their valuable information and elucidation of the many problems connected with the banking operations and exchanges. The latter was so kind as to lend me his MSS. on the "Mujin," the co-operative system and the Stock Exchange of Japan.

PHRA SARASAS.

Tokyo. *December* 31*st*, 1936.

PART I

ADMINISTRATION

CHAPTER I

POLITICAL SURVEY

THE development of money and banking has a close relationship with that of a nation's economic life, while the economic development of a country entirely depends upon its polity.

In a country where public interest plays a predominant part, as in a democratic country, economics may determine what course politics are to take; whereas in a country where individual interest is rampant, as in an autocratic country, politics dictate the line of economic policy.

"What the Government does must derive from what the Government is, and what the Government is must determine what the Government ought to do"—(Woodrow Wilson.)

When a country grows out of individual interest and private welfare and through autocracy to democracy, we see that politics always shape the economic policy until that country is made safe for democracy, when national economics governs its political course.

Japan is one of the numerous countries whose economic life was strangled by political ends, being born of the patriarchal system, which changed to feudalism, then to despotism, and from despotism to her peculiar democracy of today. Hence the economic life of Japan had been animated by private gain rather than by public benefit.

To trace the development of Japan's monetary and banking system it may be necessary to look into the different phases of her economic life, the knowledge of which can be acquired by the study of her political changes in various epochs.

In order to elucidate the economic factors and the force which sustained their growth, the writer will first trace the general outline of Japan's political life in so far as it influenced her economic policy.

The causes which determined the political changes in Europe are seen working in Japan in the same manner.

In Europe of the fifteenth and sixteenth centuries the authorities of the Pope, the emperor and the nobles were equiponderant and there were incessant clashes of power between the representatives of the three factions. In Japan also society was precipitated into a melting cauldron by the rivalries between the Emperor and the feudal chiefs. For a time feudalism succeeded in eclipsing royalty, but the latter was not vanquished.

When feudalism held its sway, the economic policy of the country was shaped with the primary object of sustaining the fighting forces, and the Government expressed only the will of the rulers—a form in which the people do not govern themselves. In those days the people were entirely forgotten ; only the authority of royalty and of feudality made itself felt in succession ; and it can be imagined how little progress could be made in the economic domain. The masses produced only for consumption by the ruling class. Production, consumption and distribution took their own course for the sole purpose of maintaining the fighting elements.

According to Professor H. S. Quigley, up to A.D. 645 Japan was still governed by tribal clans. The head of the Yamato clan was supreme, but other clans were not wholly subdued. The Yamato chief had to " share his power with local chieftains, and the State resembled a federation of tribes under his hereditary leadership."—(K. S. Latourette.)

The Yamato clan was the genesis of Japan's Ruling House, which dates back 2,597 years, and the present Emperor is its 124th descendant in direct line.

This clan held the paramount power over other clans, not simply because of its superior fighting strength but also because of the power of the belief that its chief had been divinely commissioned to rule Japan : hence the *Kigensetsu*—festival of the beginning of the Japanese Imperial era—is a national holiday observed annually on February 11 to commemorate both the conquest of opposing tribes by the Yamato chieftain Jimmu and the promulgation of the Constitution in 1889.

Even with the help of the fighting strength and the force of superstition, the Yamato clan's power was somewhat waning owing to the strong rivalries of other clans. The Great Reform of the seventh and eighth centuries by the Ruler, entitled the era of *Taikwa* (Great Reform), was hastened by the fear of

Emperor Kotoku (descendant of the Yamato clan) that his supremacy was being undermined by other chiefs.

This Great Reform had as its object to increase the Imperial power. It took as its prototype the Chinese administrative system of that epoch, with the exception of the democratic elements—such as the recognition as legitimate of the popular revolt against evil rule—which do not harmonise with the idea of the sanctity of the Emperor.

Consequently the Government became highly centralised and a strong bureaucracy was developed to supersede all the local administration. The clans were not, however, dissolved.

For several centuries this new administration was maintained, but the clash of power between the Emperor and the feudal lords, i.e. the chiefs of other clans, was not diminished; hence, instead of the royalty governing the country, it was one clan after another, successively ruling the land in the name of the Emperor.

The Great Reform, by virtue of its centralisation, had made it possible for an ambitious chieftain to attain power under the fold and protection of the monarch; and the Fujiwara clan succeeded in combining its interests and efforts in controlling the civil administration. Afterwards two other important clans, the *Taira* and the *Minamoto*, supplanted the Fujiwara (twelfth century). These two clans debased the monarchy and forced the Emperor into seclusion.

The creed that the Emperor is a god in human form subsequently involved the Emperor himself. The *Taira* and the *Minamoto* cleverly made use of this theory of divine right, and raised the monarch to the proper position of a divine sovereign, thus liberating him from all responsibilities of government and direct contact with common men. His duty was only to meditate, but not to rule.

The failure of the Great Reform was principally due to the fundamental weakness of the central government, which had deemed it wise to suppress, in its entirety, the autonomy of local administration and to centralise the provincial institution; thus rendering the responsibility more burdensome to the central body. The provincial magistrates appointed by the central authority were solely concerned with the preservation of law and order, with safeguarding the security of the rulers and providing the Government with plenty of money diligently obtained by a blood-sucking policy which drained the very heart of human life. Economic problems were not tackled, the production and distribution of the country's wealth were not

the Government's concern. Hence the economic life of the country stagnated. The village industries, which used to render the local districts self-sustaining, were left to decay. The weight of taxation became more and more burdensome. The masses had to bear the increasing burden of taxation, as more and more lands were exempted from taxes through absorption into noble estates. Hordes of people were victims of poverty, lost their lands and became outlaws, "ready for service under any banner" (Asakawa). Those who owned lands but lacked influence were driven to the necessity of transferring their properties to larger landowners in return for their protection. The military rank and file swelled, more and more men were thereby rendered unproductive; and the farmers, despite their own decreasing numbers, were obliged to maintain them.

From the military class developed the Samurai (two-sworded knights), who acted as the most important social and political agency during the subsequent period of feudalism. In theory this class of men was meant to be the national militia under the central government, but in fact it was organised by the various clans and therefore dependent upon the latter. As the central authority was in need of military action from time to time to quench rebellion or for punitive purposes, these swordsmen became more and more powerful, until the period assumed the characteristics of feudalism. Then arose the struggle for supremacy among themselves, and the strongest of these clans assailed the central power in order to gain direct control of the civil administration. Between 1155 and 1160 the *Taira* clan under Kiyomori vanquished its rival the *Minamoto* clan. The *Taira* clan's power lasted a few decades; afterwards it was defeated in its turn by its enemy, the *Minamoto* clan, which established the system of military administration known as the *Shogunate* (from the word Shogun, meaning General). "The Imperial office was allowed to remain, but only as a semblance of authority. The court nobility also was maintained for purely ceremonial functions at the Imperial capital, Kyoto" (Prof. Quigley). The supreme executive power resided in the feudal hierarchy and Japan suffered all the hardships due to feudalism for seven centuries.

The political as well as the economic life resembled that of Europe in the Middle Ages.

Feudalism did not reach its height until the seventeenth century, while monarchy continued to exist side by side with it. This maintenance of the Imperial House can be partly attributed to the recognition of the uses to which it could be put.

In Europe the popular assemblies and the États Généraux were invoked to support the Government's law of suppression ; so, in like manner here, the monarchy was being employed as a magic wand to reinforce the Shogun's power. Hence the belief in the divine right of kings and in the suitability of the Emperor's taking an allotted place in the spiritual domain divorced from all temporal power. The Crown was thereby made a mere ornament instead of a symbol of authority.

As in all oriental countries Japan's early religion was the worship of spirit gods from which the people believed themselves to be descended. Under the influence of China the ancestor worship of the celestial empire was tacked on to the religion of Japan, but modified to exalt the Mikado to a divine status ; and the life of the people was bound up with the custom, etiquette and red-tape *chinoiserie* derived from the famous Chou Li—the Chinese book of ceremonies ascribed to the Duke of Chou. *De jure* the Emperor was recognised as supreme, but *de facto* the Shogun exercised all the power of administration. The Emperor's decree was used as a magic passport for the Shogun's power. However, the royalty did not surrender nor cease its sporadic efforts to regain all its ancient prerogatives.

The position of the Shogun was that of generalissimo of the feudal army, and the Shogun took upon himself the title of *Taikun* (Great Prince). This title was used in the treaties with Western Powers. He ruled autocratically without consultation with the Emperor. For 200 years after 1634 he did not even attend at court and he forbade the *Daimyo* (feudal lords) to do so. He established his seat of government at some distance from the imperial capital (Kyoto), first at Kamakura (1192), later at Yedo (now Tokyo) (1615), where a splendid court was maintained with pomp and grandeur eclipsing that of the Emperor.

However, the rivalries among the feudal lords prevented his exercising absolute control over the land and doing away with royalty altogether.

In 1603 the Tokugawa clan ascended to the supreme power, having subdued by force all the other clans. This clan occupied the Shogun's position of power until 1868. During two centuries and a half the Tokugawa Shoguns ruled the country. In the beginning their reigns were not so bad, if not so good. They revived the village autonomy ; even a village assembly met occasionally, so that the large landowners might vote on important matters such as the local tax levy. But this policy was

confined only to the Shogunal domains, as there were still many parts of the country not yet conquered ; that is, they were still governed by other feudal chiefs who paid scant respect to the Shogun's authority. The most powerful of the Tokugawa Shoguns, such as Iyeyasu, Hidetada and Iyemitsu, laboured untiringly for the welfare of the country. Agriculture and industry were fostered, arts and sciences encouraged, laws revised and modified. However, these innovations were developed not so much to promote the welfare of the masses as for the creation of a powerful Government. Nevertheless, the people benefited greatly, and trade and commerce revived. In all autocratic Governments, the weak rulers always undo the work accomplished by their predecessors ; "they tear to shreds the carpets woven through years of prayers." So with the Tokugawa Shoguns ; their authority ebbed and flowed and at last was submerged under the tide of rebellion.

The downfall of the Tokugawa Shogunate can be attributed to three causes :

1. The new form of wealth, derived not from land but from trade developed and augmented by improvements in communication, came to the rescue of royalty.

2. Rivalries developed between the Tokugawa and the Western clans.

3. The contact with Western civilisation served to prove the inadequacy of the Government of the Shogunate.

As the Turkish menace consummated the downfall of European feudalism, so the advent of Western democracy helped to restore royalty in Japan.

Viewed as an expedient, the Shogunate in the latter part of its period was found wanting. The revolution of industry, the extension of trade, the new discoveries and inventions of the Western hemisphere opened the eyes of the Nihon people and rendered the Shogunate more and more out of date and inefficacious. The Government had never anticipated these eventualities, and when confronted with them it struggled despairingly.

These three causes hastened the abdication of the Tokugawa Shogun and prevented the establishment of a new Shogunate.

On November 3, 1867, the young Shogun *Keiki*, the last of Tokugawa Shoguns, gave up his title and surrendered all his power to the Emperor—the wisest course he could take to avoid a widespread revolution.

Emperor Mutsuhito (universally known as Emperor Meiji) being then only 16 years of age, became the beneficiary of "the restoration of the ancient form of direct Imperial Government" (J. H. Bubbins), and it is to this Emperor that present-day Japan owes its greatness.

The change from feudal to imperial administration is called the Restoration. It was during this new era, called the Meiji era, that Japan underwent great changes in both political and economic domains. The country passed through a constitutional reorganisation. It was undoubtedly owing principally to the democratic reorganisation in the governmental structure that Japan was able to make such rapid strides in the realms of economics and commerce, for constitutional politics served as an open sesame to economic expansion. Only when politics were placed on the natural platform of the Diet, forsaking the golden setting and the gorgeous palace of the Shogun, was Japan able to reorganise its economic life. The economic growth which had been stifled by the politics of autocracy and the rivalries of different factions was then allowed to gain strength.

The Restoration was accomplished, not through imperial efforts, but through the pressure of four western clans, the rivals of Tokugawa, namely Satsuma, Choshu, Hizen and Tosa. These four clans subsequently became the power behind the throne, and through their sagacity and wisdom Japan was reorganised from top to bottom. The frequent changes that occurred in the administration were evidences of the difficulty that was experienced in pouring new wine into an old bottle. Although the Throne was invested with all authority, different from what it had during the Shogunate, direct administration was exercised by the Samurai of the four clans.

"Fortunately Emperor Mutsuhito proved himself a very broad-minded and wise sovereign, realising the limitations of his position and content to wield great power rather through influence than by direct executive and administrative activity." —(Prof. Quigley.)

Although feudalism was abolished and the Emperor was freed to govern his country, the four clans were still possessed of great power which was growing increasingly, with the result that the Satsuma took over the control of the navy and the Choshu the army. But the Emperor found another faction no less important but really of greater strength than the Samurai. That third group was the people, formerly dependents of their lords and masters during feudalism, but now liberated and given the

opportunity of growing into an effective political power. It was due partly to this third group and partly to the power of the purse which royalty had acquired through the growth of trade that the four clans dwindled in power. The Tosa and Hizen clans, sensing in what direction the wind blew, made themselves champions of popular sovereignty, and agitated for full popular power. Thanks to their joint efforts parliamentarism appeared in Japan.

Although the constitution of Japan was far from democratic —having taken as its model the imperfect Prussian Constitution, and therefore having created nothing but the Diet—it liberated the people from the shackles of feudalism and allowed economic life to be revived.

The moral character and the will to succeed inherent in the Japanese race are the fundamental reasons for the advancement of the rising empire. The peculiarity of the economic development of the Japanese nation lies principally in the fact that it was due not to the system but to the agents. To prove this assertion it is necessary to go deep into the constitution and the governmental structure of Japan from the era of the Restoration to the present day. The information given us by the eminent Professor Quigley will convey to the reader the way in which the Japanese people have worked out their emancipation under great restraint ; in other words the economic advancement of this nation was accomplished under durance. If Japan were a democratic country like the United States of America, her progress might have been stunning and more a wonder to the world.

CHAPTER II

RESTORATION AND CONSTITUTION

THE first provisional Government of the Restoration, entitled the *Sanchoku* (three offices), was created in 1867; it consisted of a President (Sosai) and two groups of ten and twenty councillors respectively, called *giro* (high) and *sanyo* (low).

The majority of these councillors were recruited from the rank and file of *Daimyo* and *Samurai*. As the system was a reproduction of the Government of China in the seventh century, it was consequently not in accord with modern affairs. Much was found wanting, even though taken to be only a practical expedient. So in 1868 it was reorganised by adding to it eight ministries after the Western idea—viz. Shinto, Home Affairs, Foreign Affairs, Army and Navy, Finance, Justice, Legislation and Presidential bureau, each headed by a Prince of royal blood or by a *Kuge* (Court noble). The whole system assumed the nature of a State Council, the members of which not only discussed and formulated policy, but legislated and administered through their respective ministries.

During the period of this Government the well-known Charter Oath was proclaimed, containing five cardinal points which were copied from Dutch institutions:

"1. An assembly widely convoked shall be established and thus great stress shall be laid upon public opinion.

2. The welfare of the whole nation shall be promoted by the unceasing efforts of both the governing and the governed classes.

3. All subjects, civil and military officers, as well as other people, shall do their best, and never grow weary in accomplishing their legislative purposes.

4. All absurd usages shall be abandoned; justice and righteousness shall regulate all actions.

5. Knowledge should be sought for all over the world and thus shall be strengthened the foundations of the Imperial polity."

The most significant of these five principles was undoubtedly the first :

" An assembly widely convoked shall be established and thus great stress shall be laid upon public opinion."

It looked as if a miracle had been working and the gods were on the side of the masses. However, it was too good to be taken literally, and the Japanese intellectuals were aware of this ; so a liberal movement was started, taking the Imperial Oath as a war cry. Subsequently in the same year 1868 a provisional constitution appeared. The Government underwent some changes. The *giro* and the *sanyo* were combined into a single body called the Upper Council, in which the whole power of administration resided ; and a Lower Council was created composed of *Daimyo* and *Samurai*. The latter was intended to be a deliberative organ, but empowered to debate only on matters submitted to it by the Upper Council.

The provisional constitution, Article 5, stated distinctly that " the object of establishing the deliberative body is to obtain by open discussion the opinion of the majority, thus complying with the Imperial Oath."

This was indeed a dose for " demos," because Article 3 of the constitution, which prescribed that " The legislative branch cannot possess executive function nor can the executive branch possess legislative function," was entirely ignored ; as was also Article 9, which says : " All officers shall be changed after four years' service. They shall be appointed by a majority vote given by ballot."

The Lower Council was first convened by the Upper Council in April 1869 to examine various subjects, but the assembly was not interested in the matters under discussion. The members, being exclusively soldiers, preferred swords to speech and detested sitting down to argue. Two more sessions were tried but with the same result. Finally in 1873 the system was abolished.

In 1875, following the investigations of the Commission on Administrative Reforms composed of Messrs. Koin Kido, Toshimitsu Okubo, Hirobumi Ito and Taisuke Itagaki, the administrative powers were divided into three in accordance with the Western conception of the division of power, viz. Executive, Legislative, and Judicial ; and three organs were instituted—the Privy Council, the Senate, and the Supreme Court. But it took effect only in theory, since in practice the Council remained supreme even over the Court. Confronted with these anomalies the Japanese intellectuals prepared again

for a fresh advance. In consequence, agitation for popular assembly became intense, and strong men like Messrs. Itagaki of Tosa and Okuma of Hizen took the lead, with the result that on October 12, 1881, the Emperor issued a decree declaring his faith in parliamentarism and his intention of establishing a parliament.

"We shall in the 23rd year of Meiji (1890) establish a parliament." Another dose for "demos." The time was prolonged for another nine years. But the will of the people was already gaining ground and was decidedly set on obtaining a popular assembly which, according to their opinion, would prove a panacea for all ills. It might turn out as they thought, if a real parliament were established, but history indicates that the people can never have such luck.

The conservative element near the Throne was against popular sovereignty and consequently tried to curb the rising tide of the reformers. In accord with this, Prince Ito, who was the foremost political thinker of the time and chairman of the Commission on Constitutional Investigation, caused a new nobility to be created with a view to using it as a shock absorber. As the Court nobility (kuge), daimyo, and civil and military nobles had been deprived of their titles in 1869, the new hierarchy would detach certain powerful men from the people's cause. By so doing Prince Ito obtained the favour of the influential and wealthy class in Japan and secured noble rank for a number of *Samurai*, including himself. He thereby succeeded in increasing the power of the conservative element and successfully played it against the liberal group.

It is interesting to note that the political trend of the Government was all along for centralisation, instead of the decentralisation which was expected by the Japanese intellectuals of the day.

In 1885 the Council of State was replaced by a Cabinet (Naikaku), after the German model which was the creation of no less an autocrat than Bismarck.

"By the said reorganisation each of the Ministers of State was made to bear separately his share of responsibility directly to the Emperor. Over them was placed the Minister President of State. The object of this change was, on the one hand, to give weight to the functions of the Ministers of State and to impress upon them a higher sense of their responsibility and, on the other hand, to maintain the unity of the Cabinet and to avoid all complications and variances therein."—(Hirobumi Ito.)

Further, in order to obtain positive power for his constitution which he was drafting, Prince Ito had resuscitated (1888) the Privy Council, with himself as President, to function as a supreme advisory body. Nine ministries were further organised in addition to the office of the Minister President, as the number had been reduced to five previously; and Prince Ito was made Premier (called Minister President). The Restoration leaders were all ousted from the Cabinet posts, except in the case of the four Western chiefs, of whom Prince Ito was one.

The ordinance reads: "Whereas We deem it expedient to consult personages who have rendered signal services to the State and to avail Ourselves of their valuable advice on matters of State, We hereby establish Our Privy Council."—(McLaren.)

Now we shall turn to the provinces, where we shall find the "bricks and mortar" of the national structure.

The abolition of feudalism paved the way for the reorganisation of local governments. In fact "the evolution of local institutions was more logical and continuous than that of the agencies of national government, but this was to have been expected in view of the larger experience of the Japanese people in managing their local affairs in previous periods."—(Prof. Quigley.)

We can rightly imagine that the great reforms must have been a painful lesson for the Government, and the gaping gulf between local and central administration must have been sorely felt to have caused the Government to seek means of lightening the burden of the central authority and of partly assuaging the popular demand for the management of their own affairs. Hence this prudent course of conferring upon the people the elective local assemblies in 1878. Areas were then divided into counties, cities, towns and villages. The town and village headmen (Kocho) were elected by majority vote of the respective jurisdictions, but the election required the approval of the governor of the prefecture. A code of law for local administration was gradually put into effect from 1888 to 1890.

Even though restricted in carrying out the management of their own affairs, since some of the local matters were reserved by and some made subject to the approval of the central authority, the local assemblies made rapid progress and were operating efficiently when the permanent Constitution was proclaimed in 1889.

"It is worthy to note," asserted Prof. Quigley, "that the establishment of local institutions was a sound measure providing an opportunity to become acquainted with their functions

and methods of procedure and permitting a gradual transition to a full parliamentary régime."

We much regret that we cannot bring ourselves to agree with the learned professor, because " Government by discussion " does not seem to us to require any apprenticeship. As Lord Bryce declared, " it is universally accepted that democracy is the only normal and natural form of government." The Athenian democracy and recently the Parliament of Siam, none of whose members had had any experience yet conducted their affairs with efficiency, can be invoked as examples.

" The note of paternalism," continued the Professor, " in the relations between the central government and the localities remains dominant throughout the whole period traversed . . ."

It shows that Prof. Quigley knows what he is writing about, as the local government of old Japan was the outcome of a patriarchate, and the village community was nothing but a primitive mode of democracy in that crude age.

It was a great pity for Japan that Prince Ito, instead of Messrs. Itagaki or Okuma, was chosen to frame the Constitution. Following upon the issue of the Charter Oath Prince Ito was selected and dispatched to Washington to study the American system of government—a step which shows the wisdom and foresight of Emperor Meiji. But unfortunately Ito found the American machinery incompatible with his faith and all the more with his policy. This is indeed regrettable, because the American system had stood the test of time, had successfully weathered all the political storms and, moreover, had produced satisfactory results, this being a proof of its quality. However, Prince Ito came back with only the idea of the American federalist.

At that time Prussia was in the limelight in politics, having won in a war with France (1870-1) ; so Prince Ito went to Germany in 1882 to study the Prussian system. Himself an aristocrat at heart, he readily fell in with the views and opinions of Bismarck, and the consequence was that the Prussian Constitution was adopted as the model for Japan. This accounts for all kinds of paradoxes existing in the Japanese system. Prince Ito was commissioned to draft the Constitution, which he subsequently submitted to the Privy Council under his presidency. The Council deliberated for eight months and finally accepted it *in toto*. During that time the people were never acquainted with the substance of this vital document which was destined to shape their mode of living.

Dr. Uyehara was right when he said : " The Constitution is

a document embodying Japanese political principles under the cloak of representative institutions." He, moreover, complains that its framers " lost sight of the true principle of representative institutions." In other words the framers had no intention of creating a democratic Japan.

" It cannot be denied that the Constitution is, in terms, designed for the oligarchical absolutism in which it began its career."—(Quigley.)

Again we differ from the learned professor. The Government of Japan was not really an oligarchic absolutism when the Constitution was promulgated ; we are inclined to think that it was aristocratic instead of oligarchic, and the Constitution simply reinforced its powers and tried to perpetuate it. We are certain, even though we are not so informed, that Prince Ito, learned as he was, still nourished the dream of the Greek philosophers and pinned his faith on the Greek Council of Nobles. He must have supposed that the best government is the government by the few, composed of the best—the best being those who are superior both morally and intellectually. It was assumed that they would govern directly in the interests of the governed. But this is merely a theoretical ideal. It has never had the slightest chance of proving its virtues anywhere, because the best in this exalted sense is non-existent.

For fear of antagonism the Constitution was not revealed to the public. The radical newspapers were suppressed and the rest ordered to refrain from unfavourable comment, hence the Constitution cannot be said to be the combined effort of the whole nation. No chance was offered to the people to voice their approval or disapproval. The Constitution was the creation of the rulers, not the ruled, and no referendum was taken. It was simply thrust upon the people on February 11, 1889 ; and on November 1, 1890, it came into force.

It is very short and concise, leaving plenty of avenues for subsequent legislation. The Imperial speech on its promulgation affirmed the maintenance in its entirety of the ancient prerogative of the Dynasty, but suggested that the Dynasty should observe forever its self-imposed obligation to rule in accordance with the provisions of the Constitution.

If we trace the genesis of the Constitution in France and in other countries, we are not surprised to find the Japanese Constitution such as it is, because the causes which worked for the Constitution were entirely different. The background of European Constitutions was the Renaissance and the Reformation, but in Japan it was the rivalries of the fighting groups. The

followers of Prince Ito may argue that the situation in Japan at that time compelled him to frame such a Constitution, and that such a Constitution is the most suitable for Japan. We cannot accept this argument as valid in the presence of the difficulties which Japan has encountered in her politics since that period. The assertion that such a Constitution is the most suitable is still to be proved, as it does not mean that a better Constitution with a broader popular basis may not suit Japan better. But this is a moot point. We only concern ourselves with what Prince Ito had in mind when he framed the Constitution. If he had not been dead against the popular sovereignty essential in all Constitutions, his document would have left room for democratic expansion. But we see that such a possibility was absolutely barred by him.

". . . hence failed to leave an avenue for democratic development."—(Quigley.)

It is owing to this cause that Japan has met and continues to meet so frequently difficulties verging on deadlock between the legislative and the executive power. If it were not for the magnanimity of the Throne, the obstacles encountered would have proved a calamity to the nation.

At the time of writing, the Hirota Cabinet resigned on account of the clash of power between the Army and the Diet. The result was that the Minister of War resigned and the whole Cabinet followed suit. The Emperor commanded a retired General, Ugaki, at the recommendation of Prince Saionji, the Genro, to form a Cabinet. The Army opposed this choice, and the General tried for five days to come to some understanding with the military command, but in vain. In consequence General Ugaki failed in his mission. By virtue of the Constitution no Cabinet can be formed without the participation of the Army, which appoints its own Minister of War.

Essential to all constitutions is the separation of powers. Although the Japanese Constitution distinctly sets forth this essential, yet at the same time it strongly favours the executive, as the Constitution places not only executive but the legislative and the judicial power in the hands of the Emperor ; and the central government is empowered to control the local governments down to the minutest detail.

Moreover no provision is made in the Constitution as to what body is empowered to interpret the Constitution in case of conflict of opinions. Dr. Uyehara declares that this power belongs to the Emperor.

The Constitution, although containing provision for amendment, renders the initiative dependent upon the Emperor's discretion. It can be said that in practice no chance is afforded for its amendment, consequently up to now it has never been amended, although public opinion recognises the urgent necessity of some kind of administrative reforms which can be brought about only by improving the Constitution.

Furthermore, Article 76 of the Constitution provides :

" Existing legal enactments such as laws, regulations, ordinances or by whatever names they may be called, shall, so far as they do not conflict with the present Constitution, continue in force." As the Constitution states only the broad outline to be followed by the Government, and even that broad outline is made to depend upon the Emperor, no legal enactment can be classed as in conflict with the Constitution. Owing to the fact that a great mass of legislation was promulgated during the era of the Restoration, none of which can be classified as unconstitutional, the Constitution created nothing but the Diet.

" Any Constitution which consecrates the superior authority of an Emperor obviously leaves no place for the principle of popular sovereignty."—(Quigley.)

Only the spirit of self-sacrifice characteristic of the Japanese race, coupled with the magnanimity of the ruling house, ensures the working of the Constitution.

CHAPTER III

The Government of Japan

The executive power of the Government of Japan, instead of centring in the Cabinet, is divided amongst different agencies—the Emperor, the Cabinet, the Army, the Navy, the Privy Council and the Imperial Household Ministry. The combination of these several organs forms the central government.

The Constitution itself ignores the Cabinet. As Mr. Miyaoka writes : " The Constitution of Japan is silent as a sphinx when it comes to a question as to whom the Ministers of State are held accountable." It leaves everything to the tradition that the Cabinet has a recognised responsibility to the Emperor alone.

The membership of the Cabinet was increased in 1918 by the addition of a Minister of Railways, in 1924 by a Minister of Agriculture and Forestry and a Minister of Commerce and Industry—formerly combined—and in 1929 by a Minister of Overseas Affairs.

So far, Japan has no Ministers without portfolio, although they may be appointed.

Supreme Command

The Army and Navy in Japan enjoy a special privilege and are raised to a status of quasi-independence. The fear that the fighting force might relapse into feudalism again was entertained with apprehension, hence the peculiar position of the military and naval general staffs.

The Imperial Notification No. 135 of 1889 clearly defined :

" With the exception of military or naval affairs of grave importance which, having been reported directly to the Sovereign by the Chiefs of Staff, may have been submitted by His Majesty for the consideration of the Cabinet, the Ministers of State for Army and Navy shall report to the Minister President."

By virtue of the Constitution the Emperor has the supreme command of the Army and Navy, and this supreme command (military and naval) is a distinct executive agency independent of the Cabinet. A State within the State. The Ministers for War and Navy possess a dual status, for they are both members of the Cabinet and also members of the supreme command, reporting to the Emperor directly and independently of their colleagues in the Cabinet, over the head of the Prime Minister. It is impossible to set up or maintain a Cabinet without the participation of the fighting forces, and the Premier cannot appoint outsiders as Ministers of War and Navy. These two members of the Cabinet must be men of the Army and the Navy and approved by them. This supreme command, and the influence that works through it, gives it a unique position which enables it to control the governmental policy.

Legislation

The legislative power, considered to be the power distinct from the executive, is shared by the Cabinet and the Diet. The intrusion of executive power into the sphere of legislative proceedings is summed up by Prof. Quigley as follows :

" 1. It may convoke, open, adjourn and prorogue the Diet.
2. It may dissolve the House of Representatives.
3. It may prolong a session of the Diet.
4. It may convoke extraordinary sessions and determine their length.
5. It may order the Diet to hold secret sittings.
6. Ministers or their delegates may sit and speak in either House and in committee hearings.
7. The Government may bring in Bills and may claim precedence for them on the orders of the day.
8. Government Bills may be amended or withdrawn by the Government at any time.
9. The Executive may veto Bills.
10. It exercises large financial powers."

This places practically the whole legislative function in the hands of the Executive.

The most salient point is that the Japanese Cabinet is not responsible to the Diet.

The Diet

The prototype of the Japanese Gikai (Diet) is the Prussian Diet, which consisted of two houses. Prince Ito's idea in creating

two houses similar to the Prussian Parliament is set forth in the following:

"Now, when all the political forces are united in a single House and are left to the influence of excited passions and abandoned to one-sided movements, with no restraining and equalising power over them, that House may in the intemperance of biased excitement overstep the limits of propriety, and as a consequence bring about the despotism of the majority, which may in turn lead to anarchy. Evils would be greater under such a state of things than they were in the days when there was no representative system at all."

This shows clearly that Prince Ito had no faith in democracy, that what he wanted was an aristocratic Government. Instead of the despotism of the majority he created the despotism of the minority, contrary to the aim of democratic institutions.

The followers of Prince Ito may explain that it was not because he did not embrace democracy, but because he was afraid of mob rule in the midst of social unrest kept alive by the dispossessed nobility plotting for the return of the Shogunate.

If we accept this explanation, then Prince Ito had an entire misconception of democracy in speaking of it as the despotism of the majority which, left to excited passion, may lead to anarchy. The aristocratic or autocratic régime, in denying to citizens the schooling of responsibility, will tend to create just such excited passion; history is replete with abundant examples.

It is none the less interesting to note that this mob conception had spread from Europe to even this far corner of Asia. Freeman describes mob rule during the time of Greek civilisation as follows:

"This mob made peace and war; it appointed generals and gave them instructions; it gave audience to foreign ambassadors and discussed their proposals; it appointed its own ambassadors and gave them instructions for foreign powers. If comparative secrecy was ever needed in a diplomatic transaction, the larger mob which counted its thousands handed over its powers to the smaller mob of a few hundred which formed the Senate." And he added: "This mob clothed with executive functions made one of the best governments which the world ever saw. It did not work impossibilities, it did not change the earth into paradise or men into angels . . . surely that Government must be called a good one which is a marked improvement upon every Government which has gone before it."

Prof. Shotwell summed up the conditions of Europe of the nineteenth century in the following terms :

". . . throughout this era, the symbol of reaction was Prince Metternich and the autocrat of all the Russians. Alexander the First was the supreme exponent. He, however, ennobled the conceptions of conservatism by linking them with those of religion and of public duty.

" What was the result in Europe ? Corruption in Government ; selfish exploitation by the ruling class ; heartless and cruel punishment for dissenting liberals and bloody repression of the aspirations of nations for self-expression. . . . Compare this period of reaction and autocracy with the second half of the nineteenth century which was given in part only to the democratic institutions. We find that with all the blundering and incompetence that goes with the extension of suffrage and the scope of representative government, there was, nevertheless, an advance in political capacity, especially as registered in the solution of problems of social justice. This period by far reached the greatest achievement in all political history . . . We can perhaps best summarise it in a single question : which of the two had the clearer vision of the realities and possibilities of mere humanity, Metternich or Lincoln ? "

To try to introduce democracy at once without any preparation or without mass education would lead to mob rule. Disorder might take possession of the country or the masses would be lured into the egoistic web of the stump orators who could exploit them for their individual ends and individual interest. This seems to be the fear of all the reformers. Dr. Sun Yat Sen was also haunted with this fear, and the consequence was the establishment of a quasi-dictatorship in China. What is the result ? The emancipation of the Chinese people is as far away as ever.

It was no doubt the old inherited fear of the European conservatives before the advent of democracy in the West.

" Seventy years ago, as those who are now old can well remember, the approaching rise of the masses to power was regarded by the educated classes of Europe as a menace to order and property, when the word democracy awakened dislike or fear." So says Bryce. And he adds : " Now it is a word of praise ; popular power is welcomed, extolled, and worshipped."

Instead of a democratic Government complying with the Imperial Oath, Prince Ito had set up a Government of aristo-democratic nature. We can imagine how defective such a governmental structure may be. One of these defects is seen in

the composition of the Upper House of the Diet, which consists of all members nominated by the Emperor and given the power to overrule the Lower House whose members are all representatives of the people. With a parliament like this there is no such thing as popular sovereignty.

The Upper House is called House of Peers and is composed of 400 members on the average, and the Lower House is called House of Representatives and is composed of 464 members on the average.

The members of the Lower House are elected by suffrage and are therefore representatives of the people of the whole country. " Representatives, therefore, are to speak freely in the House according to the dictates of their individual consciences, and are not to regard themselves as the delegates only of the people of their respective districts, commissioned to attend merely to matters entrusted to them by their constituents."—(*Commentaries*.)

Again this is a misconception of the duty of the representatives, who must take into consideration the special conditions of their respective districts.

The House of Peers consists of six classes of members :

1. Princes of royal blood.

2. Princes and marquises.

3. Representatives of the three lower orders of nobility, viz. counts, viscounts and barons.

4. Imperial appointees selected from (a) men of distinguished service to the State, (b) representatives of the highest taxpayers, (c) representatives of the Imperial Academy.

The numbers of (b) and (c) may not exceed that of the noble members, and of (b) alone may not exceed sixty-six.

Princes of the blood (1), princes and marquises (2), sit by hereditary right. Counts, viscounts and barons (3) sit for seven years. Imperial appointees (4) sit for life, with the exception of the representatives of the high taxpayers, who sit for seven years only.

The age limit for group (1) is 21, groups (2) 30, groups (3) 25, and group (4) 40.

The Lower House is composed entirely of members elected by the people and the membership is for four years.

" Both Houses shall vote upon projects of law submitted to them by the Government and may respectively initiate projects of law."—(Constitution, Article 38.)

CONTROL OF CABINET

Representations.—The Constitution authorises what are known as " representations." These are resorted to frequently by the Lower House in order to suggest desirable projects of law or amendments thereof, but the Government may or may not comply with the members' wishes. If the Government refuses to accept a representation, that representation may not be presented again in the same session. Representations are also used to suggest administrative action or to call the Government's attention to a failure on the Government's part to perform a certain function. A representation may be proposed by either House provided that it is endorsed by thirty members at least. " For whatever their purpose may be, they (the representations) have no force beyond advice."—(Quigley.)

Interpellations.—A member may put a question to the Government provided that thirty other members endorse this action. A minister may answer immediately or postpone his answer to a future date or decline to answer altogether, giving his reasons for doing so. With regard to interpellations members are free to press for further information if unsatisfied with the replies given.

Resolutions of Censure.—No provision for censure is found in the Constitution or in the law of the Diet, but practice has made it possible. Censure usually takes the form either of motions of no confidence or of impeachment. Although the ministers are not constitutionally responsible to either House and may not resign, as in England or France, on the vote of non-confidence, a Cabinet is reluctant to have a censure passed, hence will take every means to avoid it.

The powers of the Diet are secondary, not primary, consequently the Diet is competent only to apply checks but not to initiate or dictate any policy, as in England or France.

A new Cabinet in Japan does not mean a new policy of the Government, because the Cabinet is not dependent on the Diet but on the Emperor, i.e. on a combination of agencies that act behind the Throne.

ELECTIONS

The electoral laws of 1889, 1900, 1919, all required the payment of taxes as a qualification of voters. Fifteen yen in " direct national taxes " were prescribed as minimum in the law of 1889, but the law of 1900 reduced it to 10 yen, and the law of 1919 to 3 yen. The law of 1925 abolished this qualification entirely, but denied the right of vote to persons dependent on public or

private relief on account of poverty, and to persons without definite domicile.

From the beginning the voting privilege has been granted to males only, who have attained the age of 25, who are Japanese subjects and have been residing for at least one year in their respective electoral districts. Disqualified persons are the heads of noble houses, members of the Army and Navy in active service, incompetent or quasi-incompetent persons, bankrupts, convicts, and former convicts after a certain period following the release from confinement.

The Manhood Suffrage Act of 1925 was promulgated not because the executive deemed such an expansion of popular power opportune but because the general will and political agitation had become too intense and too strong for the Government to ignore them.

Eligibility

Eligibility to office of members of the Lower House continues to be restricted, although candidates for seats in the House are no longer required to fulfil property qualifications as before. The age limit for representation continues to be thirty years. Priests and teachers, before denied the right of becoming members of parliament, are now by the law of 1925 granted the right.

Any candidate for a seat in the House must notify the chairman of election of the district in which he proposes to run, and must deposit 2,000 yen in cash or in Government bonds. The deposit is confiscated if the candidate receives fewer than one-tenth of the total votes of his district divided by the number of seats allotted to that district. This is a great handicap to a poor candidate, who has to beg or borrow to get this sum.

" Candidates who obtain the highest plurality within the district are declared elected provided each has received at least one-quarter of the quotient obtained by dividing the total vote of the district by the number of seats to be filled.

" If a vacancy occurs after a member has taken his seat, a new election is required but is not held until at least two vacancies occur in the district."—(Quigley.)

The election laws limit the expense of the election campaign to a sum not exceeding that obtained by multiplying by 40 sen the quotient resulting from dividing the total number of registered electors in his district by the number of seats to be filled for that district.

The average amount came to 10,650 yen for each candidate in the election of 1928, and 8,000 yen in 1936.

The large amount of money required for election campaign expenses puts the candidates in the clutch of the capitalists.

A great amount of money was formerly contributed to the political parties—Seiyukai, Minseito, etc.—by the great commercial concerns such as Mitsui, Mitsubishi, Yasuda, Sumitomo, Okura and others. But the Government frowned upon this kind of subvention, which is now done secretly. Although the parties subsidise their candidates, they do not furnish all the expenses for their campaigns, as in France or England, hence a poor candidate qualified in intelligence, experience, etc., is deprived of the chance of running in the election simply because he cannot afford it.

The Government exercises a sweeping control over the elections.

PART II

MONEY

CHAPTER IV

Economic Survey

In order to prepare the ground for our study of the monetary and banking system of Japan we have just surveyed the political changes and the governmental structure before and after the Restoration. It behoves us to treat in the present chapter the economic changes accompanying the political vicissitudes.

We have to bear in mind that after the Restoration economics and politics were so welded that it is not easy to separate them.

There is no reason to doubt that Japan was wholly an agricultural country and continued to be so up to 1914. In the very beginning all her people were engaged in agricultural industry with the exception of a small percentage who worked as artisans supplying the others with houses, tools, etc. At that time there was not yet born the merchant class.

Considering that Japan was shut off for centuries from outside contact, save to a small extent with China and Korea, and that she began opening her doors only during the Tokugawa Shogunate, we may deduce that this country used to be self-sufficient. Of course the land was called upon to accommodate fewer people, and the primitive way of living demanded but moderate supplies for elementary wants. Then came the feudal period when a great number of the male population were engaged in the occupation of fighting ; consequently less people were available for productive work. Yet scarcity of land did not make itself felt as plenty of rice and fish could be easily obtained. The people were not hard pressed and could pursue a comfortable if not luxurious living.

The feudal knights, although lords and masters within their domains, were still less oppressive than absolute kings. Being in closer touch with their subjects they paid more attention to the welfare of the people, on whom depended the size of their purse and the number of their recruits. It can be said with

certitude that the Japanese people in former days lived not so badly if not so well. Only once during the Great Reforms were the masses ground down by autocracy, and even then it was not the entire population, for the remote parts of the country were still under direct control of the feudal clans, who disregarded the central authority. Compared with their brothers across the sea the Japanese people were more fortunate.

"In the masses [Japanese] one finds neither misery nor envy."—(Layrle.)

History tells us that people in an agricultural country, unlike their brothers in an industrial region, live to experience the sport of adverse fortune, and only the factory workers suffer from misery and hardship due to the evils of bad government. It stands to reason, therefore, that the masses of Japan were not the prime movers of any reforms in either politics or economics. If any amelioration of the conditions of their life took place, it was not due to a popular movement. The people let their rulers pass over their heads like clouds, now tinged with purple gorgeousness, now black with the threat of thunder. Although so often they bring devastation in their wake, yet they are like catastrophes of nature whose traces are soon forgotten.

But if the masses are not the propelling force in bringing about any political or economic reforms, nevertheless they are the agents of the reformers. If we trace the innovations in politics due to the rivalries between the fighting elements and the Throne, and in economics due to the advent of money, it is the quality of the masses which rendered possible these changes.

It is mistakenly held that the French Revolution was a popular movement breaking out because the peasants were ground down by the nobility. In reality it was the work of the intellectuals, who are the class directly affected by good or bad government.

"It is a remarkable fact that opposition never comes from the working class but from the so-called intellectuals."—(Sir Charles Petrie.)

Yet in every case it is the masses who crown the efforts of the intellectuals.

In Japan the persons who played the most prominent part in bringing about any reforms were the fighting elements themselves, hence the tremendous prestige enjoyed by the fighting forces, which used to monopolise all the political activities, leaving to the people the economic battle of life.

Before the Great Reforms the people used to take an active

part in politics and economics, as they were governed by a simple form of administration in a small community almost autonomous.

At that time life touched life, consequently the mode of living and also the habits and traditions became simple.

For a long time the Japanese people were enjoying this simple and gentle way of living during the direct government of the village community. This accounts for the customs and manners of the Japanese, who distinguish themselves in intelligence, sweetness, sociability, simplicity, and last but not least in exquisite politeness, which made up the fundamentals of all economic reforms in Japan.

Another characteristic, which is the outcome of village self-government and is so pronounced in the Japanese people, is the complete absence of religious sentiment. This does not mean that there are no religions, no temples or shrines, in Japan. On the contrary, places of worship are numerous, and numerous also are the religions. Nevertheless, to have permitted all sorts of cults to exist side by side in amity proves that the religious sentiment must have been really lacking. The Buddhists go to the Shinto shrines as freely as they do the Buddhist temples. One cannot imagine the Moslems going to the Hindu temples, or the Hindus frequenting the Mohammedan mosques in India. There never has been fanaticism or wholesale religious persecution as in India.

In this regard Japan is fortunate, as her religions do not mar the progress of life.

" The tribes which were least intimidated by petty phantoms of superstition, least hampered by the chains of empty but imperative religious ceremonial, least influenced by the engrossing observance of times and seasons, would have greater confidence in themselves, would be freer to win fortune by their own hands, instead of passively seeking it in the signs of heavens, in gods, or in the aspects of nature, and so would be the surer conquerors of the Earth."—(Woodrow Wilson.)

The lack of religious sentiment in Japan means one enemy less among the army of obstacles which mar the progress of modernisation, and Japan has found that her conservative element was powerless to hinder her advance. This is one of the factors which contribute to the rapid ascendancy of Nippon.

The paternal form of government which blends with the constitutional monarchy constitutes a bulwark against tyranny. The belief that all Japanese are of one huge family, at the head of which is the Emperor, and that all the Japanese are the

descendants of gods and the Emperor himself is god in human form, is meant only for the masses; for the intellectuals it takes another interpretation which is based on the simple principle of public interest blended and intertwined with individual welfare which demands the sacrifice of all for all.

The divine right of kings in Japan is carried farther into divinity than in Europe, and claims a complete sacrifice of the ruler. The people adore their Emperor as their god because of his sublimity, comparing it with that of a god. So long as the monarch divorces himself from worldly temptations for power and glory and shuts himself in his citadel to meditate, in a manner appropriate to his unenviable post, the people will continue to worship him.

" A king can do no wrong " not only resolves into " a king can do no right " but into " a king can do nothing, either right or wrong."

Foreigners who give the Japanese people only a casual thought are prone to believe that the intellectuals of this country still drug their intellect with the idea of a superman, on the apparently unfounded theory that the Emperor is the descendant of the sun itself, hence a god, and that the Japanese people all derive from the family of gods. As if it is possible that a people of such advancement and civilisation as the Japanese should give credence to such a creed! The fact is that this belief has been the corner-stone of the political structure of Japan from the beginning, and investigation shows that the theory is not incompatible with modern ideas. The word " god," as the Japanese use it, does not mean a superman as in the European sense, but a saint or, simply, sublimity. An Asiatic man can be an Asiatic god if he practises self-denial, liberality and altruism. The Emperor is compared to a god because of his magnanimity. In France, Louis XIV, by his glorious reign, was entitled Roi Soleil, to exalt him who brought enlightenment to the world. The Japanese élite, desiring to keep their compatriots alive with the spirit of generosity, liberality and altruism, foster the old theory of one family nation of which all the members have their interests welded into one public well-being. We cannot deny that this is wisdom.

Japan has been able to weather the storm of dictatorship of various colours because of this spirit.

The big earthquake of Japan in 1923 is a thing of the past; so is the chance for autocracy either in the form of fascism or military dictatorship. But the tremors of the earth continue to occur now and again, and so also do the political

rumblings of vested interests which come and go without endangering the solidity of the State. The foreigners who take these rumblings as sign of a big quake which will destroy Japan in a political upheaval are much mistaken.

The spirit of the Japanese masses, coupled with the Japanese will and ambition, which centres on the nation instead of on the individual, makes possible the economic structure which has been built up since the fall of the Shogunate.

With a homogeneous State and a liberal spirit among its people, the economic development of Japan can pursue its course in spite of the many political obstacles in the way.

As in other countries, the whole economic history of Japan became significant only when money came to share the field with the sword.

Before, there was only one power—the fighting force ; but money has created another power—the power of the purse ; and these two forces are still balancing each other, constituting the equilibrium of the State.

There are many people who look upon the fighting forces in Japan as a dead weight which retards the economic progress of the country. This conception is far from the truth. Here again is the peculiarity of Japan. The Army as well as the Navy form the bulwark against oligarchy, i.e. against the ascendancy of the capitalists, who would otherwise usurp the administrative power. They have at heart the welfare of the working class and make themselves champions of the people's cause for the amelioration of the masses' livelihood. Instead of allowing themselves to be bribed by the capitalists, as in many countries in Europe, the Japanese Army and Navy are deadly antagonistic to the activities of the capitalists in the political domain. Hence the frequent clash with the Diet, which they believe is in the pay of the big financiers. Instead of divorcing themselves from politics they enter the political arena and constitute a counterweight to the power of the purse.

The capitalist class is one of the offsprings of the prolific money mother. From the time when the capitalists appeared the economic history of Japan became interesting ; and it was due to this class that feudalism was destroyed. Before that, production and consumption followed each other as day follows night, hence distribution was one-sided and presented no problem to be solved. But as soon as the merchant class appear by virtue of money, distribution assumes an important aspect and becomes a serious problem, which confronts Japan today. However, our purpose at present is to deal with the Japanese

monetary and banking system and not her distribution of national income, although the latter is highly interesting. Suffice it to say that as soon as money was introduced the economic life of Japan underwent an entire change.

" No period in the whole economic history of Japan is more significant than the period of transition from natural economy to money economy."—(Dr. M. Takizawa.)

In former Japan rice was used as a standard of value, and the means of production was, of course, land. Land became the only means of creating wealth, while trade was not known. People still bartered away their produce. Dr. Takizawa tells us that in the beginning of the seventeenth century the wealth of the entire nation was calculated to be 28 million *koku* of rice (one *koku*=5·12 bushels).

To comprehend fully the fundamental basis of the economic structure of Japan it is not amiss to emphasise the importance of the democratic spirit of the Japanese people.

It is interesting to note the democratic survivals of the village community in Japan in the era of rice, such as a common law that the lord could not legitimately take away from a peasant the land which the latter had cultivated continually for fifteen or twenty years and on which he had paid regularly the taxes.

The peasants of one village formed a kind of corporation which could act as one legal body in various matters, such as making a collective contract with another village, owning property, suing or being sued as one person, and rendering itself responsible for the assessed amount of taxation, so that if one man failed to produce his share of taxes the rest of the members of that corporation had to bear the burden. The head of the corporation was the man most respected of the community and generally elected to the post by the villagers. He acted as intermediary between the lord and his village. He kept a record of the land and its produce as well as a registry of the births and deaths of the villagers under his jurisdiction. He had to see that everybody faithfully pursued his daily task. He acted as arbitrator. He was responsible for the conduct and welfare of his village. If one man was unable to work his field, the rest had to cultivate it, and if one man ran away from the village the rest had to search for him, and if unsuccessful had to pay fines.

Owing to this system of the self-governing community each village was self-supporting. But this golden era was not destined to last for ever. There came the crushing period of feudalism which swept away the former democratic institution, leaving the country helpless till money came to the rescue. But it was

not until the middle of the Tokugawa Shogunate that the full effect of money made itself felt.

We have seen in the preceding chapters how the Japanese worked out their emancipation and how economic growth was stunted by political interests. Owing to the defects of the Constitution it looked as if the economic development of this country would have to wait until that Constitution was modified. Such would have been the case for other countries, but not Japan. The Japanese zeal and disposition, acquired from working under the continual strain of catastrophes such as wars and earthquakes, rendered possible the economic growth. Even with the advantage of this national quality it would still have taken a long time to achieve the present advancement if money had not appeared on the scene. Morally, it was owing to the spirit and conception of the West that the Government as well as the people could surmount the obstacles which the Constitution placed in their way. Materially, it was owing to the god of money, which hallowed the diligence and crowned the efforts of the Japanese.

The Japanese people are grateful for their Constitution which, even though it is defective, has partially liberated them from the shackles of the autocracy of the Shoguns. From that period the development of the commerce and industry of Japan becomes a reality and finance follows in its wake.

The civilisation of China influenced greatly the shaping of the old economic policy of Japan, and the Chinese advancement in the realm of money and credit spread to Japan in that period.

We are aware that China was the first country in the world which ever coined money. Sir George Macdonald writes :

" There is no reason to doubt the explicit statement of the annalist that a coinage was instituted by *Cheng*, the second King of *Chou*, as far back as 1091 B.C."

Mr. S. R. Wagel even went farther than that: he affirmed that money was in circulation in China as early as the reign of T'ai-hao (2953 to 2839 B.C.) and Shang (1558 to 1050 B.C.); gold, silver and copper money were in circulation besides the well-known cowrie shells.

And Mr. Hirst observed that Marco Polo found a paper currency in force throughout China. Before Europe had ever known of paper money and credit, bills of lading, warehouse warrants and bills of exchange were widely negotiated in China. And Japan had known for a long time how to make the instruments of credit negotiable before Europe attempted to do so.

Macleod tells us that certificates representing the deposits of

gold or silver of a rich merchant were used as bank-notes in China under the dynasty of Tang as early as 807 A.D.

In 960 the *Piantsian* (flying) were the Chinese paper money under the dynasty of *Sung*. In 1021 a joint-stock company of rich merchants was authorised to issue notes payable in three years. This seems to have been the first case of fiduciary issue. The origin of bank-notes in Europe is, according to Macleod, attributed to Palmstruch, the founder of the Bank of Sweden in 1688.

What China had done, Japan mostly did in those good old days.

Prof. Charles Beard, talking of budgets, says: "At a time when a balance-sheet is almost unknown to American legislators, it is refreshing to learn that Japan has installed and is actually operating a budget system which contains nearly all the elements of a model plan."

But what Japan had learnt from China in economics and finance could only stand her in good stead in that ancient time. Since the Meiji era Japan had to reorganise her commerce and finance, and this time she had to turn to Europe and America for guidance.

CHAPTER V

Development of Money

There is no need for the writer to go into the origin of money in detail, as every reader of this book already knows from the classical authors how money has come to serve as a medium of exchange. The same necessity that the Babylonians, the Assyrians, the Lydians, the Hindus, the Persians, the Egyptians, the Greeks and the Romans experienced before the advent of money made itself felt here in Japan and took effect in like manner. The reader, moreover, is aware that the original form of the standard of value was neither gold nor silver but oxen, skins, cowrie shells, rice, etc.; hence it was not surprising that Japan first adopted rice as the original measure of value. In China they used even a piece of silk as money.

We may safely assume that before Japan found her medium of exchange, society must have passed the stage of communal life, and division of labour had become accentuated to a marked degree. The members of society enjoyed more comforts and even indulged in a little luxury, as it was at this stage that the usefulness of money became apparent.

Money as money, whatever substance it was made of, had very little value in the earlier stages of civilisation, as business could be carried on by barter. Only when an individual's production was more than his consumption did trade arise to an extent that required some kind of medium of exchange.

An inquiry into the history of money in Japan takes us from the earliest primitive form of society that was found in a tiny village with the bare necessities of life to the flourishing city of Tokyo, one of the world's greatest metropolises.

If we follow the economic growth of a village community as described by Plato in his famous *Republic*, our idea of the economic development of ancient Japan will not be far wrong. Division of labour gradually became unavoidable as people began to acquire more of the necessaries and even comforts of

life. Instead of dividing their time, they divided their labour and bartered their surplus products.

The development took place in the form of gradual evolution. First: there was simple barter or exchange without intermediaries. Second: in order to facilitate these transactions a class of merchants arose and a market was created where various commodities, grown or made or imported, were brought to be exchanged.

It was in the second stage that the necessity of some kind of a measure of value made itself felt. The course of evolution, better stated by McLeary, can be applied also to Japan:

" By and by men observed that there was some article that was in such general demand that in exchange for it, one could, at any time, get any other thing that he might desire. This object of general desire gradually became the medium through which exchanges were effected. A person having a surplus of anything, even if he had no unsupplied want, would take this medium of exchange, knowing that for it he could at any time supply his wants."

Japan was fed on rice, and rice was in such general demand that it came to be adopted as a measure of value.

In Homeric Greece an ox was the measure, and all things, including slaves, gold and silver, were valued at so many oxen. An ox became a standard of value because it is easily transportable, having its own legs. An ox being too big for small transactions was replaced by a sheep, but the Romans still called their currency oxen (*pecunia*).

In the pedigree of coined money Sir George Macdonald gives precedence to China. He says coins were probably first circulated in China. As Japan had been in contact with her neighbour since early periods, coins may have found their way to this country. But owing to the hazardous communications in those primitive days trade between China and Japan may have been not only irregular but intermittent, hence we find no such record in the annals of Japan until very much later. However, there is no reason to doubt that the evolution of coinage in Japan must have been influenced a great deal by the Chinese coins.

" The history of metal money in Japan is very vague and lacks sufficient material to give a consistent account."—(Takizawa.)

We can imagine how inconvenient it must have been for the Japanese people at that remote period to use rice as a standard, because rice varied in exchange value according to seasonal

crops. As the essential property of money is fixity of value, any money which varies in exchange value defeats its purpose. The Japanese people must have continually searched for other measures, and when Chinese copper coins came in through the medium of commerce, they were adopted at once, and when a copper mine was discovered in Japan copper was enthroned as the standard metal.

European money was derived by lineal descent from the coinage of Lydia, but Japanese coined money has taken its origin from that of China, which also was copper. Rome is another country which adopted copper as its standard of value and the first Roman coins (As) were minted in the temple of Juno Moneta at Rome, hence the word money.

Dr. Takizawa claims that the first mention of copper coin in Japan is found in one of the chronicles of the period of Emperor Kenso (A.D. 485-7), which indicates that in A.D. 486 one *koku* of rice equalled one *mon* of *zeni* (copper money). The next reference to metal money is found in record of Emperor Temmu, in which it is stated that (in A.D. 674) white silver was found in the province of Tsushima, silver money being then introduced. Historical evidence tends to show that up to this time both copper and silver currency was used in Japan.

In A.D. 683 an Imperial decree prohibited the use of silver money. Although no reason was given why it was forbidden, the high price of silver and the desire to preserve the precious metal for other purposes may have been the motive.

Dr. Takizawa agrees with Mr. Komiyama Masuhide that before the eighth century metal money was not yet in general circulation, although a mint was established in Japan as early as A.D. 694.

In A.D. 708 copper was found in the province of Musashi. Emperor Gemmei ordered the mintage of copper coins and prohibited the private coinage of silver money as well as the use of it.

In A.D. 713 by Imperial decree copper money became the medium of exchange, but owing to the lack of understanding in the use of metal money it did not find a wide circulation. From the beginning of the eleventh century and during 600 years after, mintage was stopped by the Emperor, but was still done privately by the powerful clans who owned mines within their domains. About this time gold was discovered in some parts of Japan. As gold was already valued highly, gold became also a measure of value and was circulated side by side with silver and copper. Although it was used as a medium of

exchange no trace has been found as to gold coinage until very much later, therefore it must have been used in its natural form. Moreover, we find that Japan used to exchange her gold bars for the copper money of China. The amount of copper money bought from China increased greatly between 1336 and 1465, when copper coins were in vogue. The most popular kind of Chinese copper coins was the Eirakusen.

Oishi Hisanori, a prominent historian, relates that in August 1403 a Chinese merchant ship was found stranded off the coast of Misaki in Sagami province. On board ship were found a great quantity of Eirakusen, so the Lord of Hojo, the feudal baron of that province, confiscated all the coins and gave the shipwrecked Chinese only fuel and water for the return voyage.

Professor Yosuburo Takekoshi affirms that: "Heretofore (1568) though gold was used in trade, most of it was gold dust or beaten-out gold or bullion cut up as necessity required. Gold dust was kept in bags each weighing 10 ryo, but the old form of gold bullion had to be weighed each time."

The reason why gold dust became a medium of exchange was that gold was obtained by washing the earth from the mines. At first it was put into a small bag of convenient size (10 ryo). Later it was discovered that gold dust often dripped from the mouth of the bag, causing a great loss, so it was melted into gold bars and used by weight, the bars being cut as required. But gold was still scarce, so its use was not as prevalent as the use of silver and copper.

Mr. H. G. Moulton writes: "Copper and silver were extensively employed as currency in the eighth and ninth centuries. During the greater part of the Middle Ages, however, when the country was divided among warring feudal lords, the circulation of money became of negligible importance in the economy of the country."

In the Ashikaga period (1334-1573) copper coins, although they found wide circulation, were not cast by the central Government but by the local chieftains and even merchants.

Copper coins were so much in demand that toward the middle of the sixteenth century various *Daimyo* in Kwanto province (Tokyo) issued copper coins called Bita, which circulated with the Eirakusen. At first the two kinds of copper money were accepted as of equal value, but since the Bita was of inferior quality preference was given to Eirakusen. In 1608 the Government fixed the ratio at 1 to 4.

At the end of the Ashikaga period (1573) the import of copper

coins from China was temporarily stopped because the native coins could not compete with the Chinese cash, which found more favour. As the people were already accustomed to using coined money, a large quantity of copper coins was required; and when the native coins could not meet the entire demand, something had to be done. Hence gold dust, formerly employed exclusively by the Government, gradually came into public use. At the same time gold was necessary for the fighting forces as it could buy more of the necessities, so the feudal lords tried to acquire it either by mining or by washing. Gold gradually became common, but still there was not enough to meet the requirements.

During the fifteenth and sixteenth centuries various Daimyo also issued gold and silver money.

"At the end of the Ashikaga period (1573) the power of the Government had so declined and public confidence so weakened that even copper coins could not be circulated, although the people had already acquired the habit of using gold and silver. The gold used was gold dust which dribbled out at the mouth when required, consequently it spilled and was lost, so it was melted and made into plate gold and circulated by weight. This plate gold was afterwards made into a standard size. This is the origin of gold coins in Japan."—(Takekoshi.)

The silver used was in the form of lumps and bars.

The first legal tender of gold was fixed by Nobunaga (1573-82), and Tensho Oban was first coined in this period. These Tensho Oban coins were circulated with other gold currency.

Before that there was no legal tender of any coin in the country, but there existed a sort of bimetallic arrangement with the copper cash as co-operating units. This should not be confounded with bimetallism as known and understood in the West.

As a result of continual fighting between the feudal lords for supremacy there was no central power, and the provinces differed from each other, as did also their monetary systems. We can imagine how bad were the currency conditions of Japan at that period with its several provincial mintages amounting to about sixty different kinds. But the situation was not half as bad as in France in the early decades of the nineteenth century, or in Germany even as late as 1860, where there existed over seventy different currencies of the various Germanic States.

When Nobunaga held sway over other clans, a variety of gold and silver currency was in general use, as each province minted its own money. To make his money circulate in the provinces

under his control Nobunaga issued the Oban and made it legal tender; but he had not enough power to stop the use of other currencies, as these uncoined currencies were used by weight of precious metal, not by count; hence his money had to circulate side by side with them. But Nobunaga coins found greater popularity, as the old cumbersome method (of weighing gold every time before a transaction) could be dispensed with. But gold was rare and Nobunaga coins could not meet the entire demand.

In 1582 the Lord of Kai province, being the most economic-minded of all the lords, paid great attention to currency in order to fill his war chest. He instituted many kinds of taxes which were to be paid half in money and half in rice, so the use of money was much more developed than in other provinces. Later Nobunaga followed his example. What Nobunaga commenced was followed by Hideyoshi and later carried on to some degree of perfection by Iyeyasu.

At the end of the sixteenth century Hideyoshi rose to power, having subdued most of the other clans. He attempted to unify the currency system by issuing two big standard gold coins, but owing to their cumbersome size the coins were not popular. The English silver coins of 20 and 10 shilling pieces met the same fate. The smaller coin of Hideyoshi was 4·8 sun long and 2·8 sun wide (1 sun=1·19 in.) and weighed 30 momme (1 momme=·132 oz.); the bigger coin was 5·5 sun long and 3·5 sun wide and weighed 44·7 momme.

During the time of Tokugawa Iyeyasu (seventeenth century) by his administrative talent the currency system attained some degree of uniformity. Iyeyasu observed the inconvenience caused by the size and weight of Hideyoshi coins, therefore he divided one into ten fractions each valued 1 ryo and proclaimed 1 ryo as the unit of value; thereby he established for the first time what was to become the system of currency. He, moreover, determined the quality of silver currency to facilitate buying and selling; he unified copper coins and minted them in sufficient abundance; he established gold and silver mints and to a certain extent prohibited private coinage. Indeed the currency situation of Japan was improved by Iyeyasu for the first time.

In 1592 he coined the Koban (100th of Oban) and divided it into four fractions called Buban.

Before Iyeyasu's time the merchants had begun already to melt down gold dust and to weigh the little lumps, wrapping them up in small paper packets of 1 ryo, 1 bu and 1 shu.

Inspired by this practice Iyeyasu caused the mintage of small gold coins of 1 ryo and declared 1 ryo the unit of currency.

As indicated previously, the mint was established a long time before Iyeyasu's régime, and in 1592 the Lord of Kai made full use of his mint. Iyeyasu imitated that system and monopolised the gold mintage.

The Government bureau, however, did not coin all the currency in circulation, as various individuals still issued their own currency; hence the duty of the mint monopoly was confined to testing the quality of gold and its weight.

The currency then was not debased, but was made of gold or silver metal freshly extracted from the mine after a crude process of purifying. The idea of obtaining profits out of coinage had not yet entered the minds of the Government or the feudal lords. The reason is obvious. Profit from coinage only arises when the Government legislates for the use of debased coins and the people accept them. Since the country was still divided and even the Tokugawa Shogun's power did not extend over all the feudal lords beyond his own domain, which formed only a part of the country, no Government was invested with the supreme power of a central authority strong enough to enforce such legislation.

While gold was already coined, silver was left to circulate in lumps and in bars or chopped up according to weight. Silver metal was beaten flat, then marked with lines into sections and cut off at the line when paid out.

The foundation of the modern currency system was laid by the Tokugawa Shogunate, but the use of metal money as a medium of exchange became prevalent only in the latter part of that period (1603-1868); hence Iyeyasu's efforts were not crowned with complete success.

During Iyeyasu's reign many gold and silver mines were discovered (1601) in Sado, Iwami and Tajima provinces. Iyeyasu made use of the output of these sources and caused to be minted several kinds of gold and silver coins. The biggest of his gold coins was called Hankin, worth 7 ryos (about 10·64 yen) or 60 momme of silver, and the smallest was called Ichibukin, worth one-quarter of a ryo or 15 momme of silver. The silver coins were Teigin and Mameitagin.

When two metals are used as a medium of exchange in the same country, the question of the rate of exchange between the metals becomes one of great importance.

"Even as early as the era of Menes in Egypt there was a fixed ratio of exchange between gold and silver."—(S. R. Wagel.)

But in Japan up to this time no legal ratio had been established between the two metals, which enjoyed joint supremacy; and the market prices of gold and silver fixed by the merchants or the money-lenders, as they were called, controlled the situation. It can be said that up to this period and even later gold, silver and copper were the currency of the country, independent of each other and circulated without a legal ratio of exchange between them.

In 1601 Iyeyasu instituted a regular silver mint at Fushima and issued legal tender silver coins, known as the Teigin and Mameitagin, for the first time. But owing to the existing silver currency already issued by merchants the Government was afraid that its coins might not be generally accepted; so the guilds of silver merchants were ordered to stamp their names on the Government coins. The Government's anxiety proved to be well founded, as even with the guilds' stamp the public hesitated to accept the Government coins until the individual merchants added their own personal stamp on the coins, thus proving that in this connection the public confidence in the Government was less than in the silver merchants. The reason was that whereas the Government coins were used by count or numerical units, the private coins were used by weight of metal and the Government coins were not of pure silver but contained alloy. The Shogunate had to allow private silver currency to circulate for some time, but afterwards Iyeyasu prohibited it altogether.

He, moreover, fixed the metal content in both his gold and silver coins by law. He further established the ratio between gold and silver and made both the metallic coins circulate as legal tender. The ratio of gold and silver was then 1 : 12, although it was not the same in all Japan. At Nagasaki, for instance, it was allowed to be 1 : 13 owing to the scarcity of gold.

Mr. S. R. Wagel recalls that at about the period anterior to the reign of Darius the ratio of the value of gold and silver in Persia was maintained at 1 : 13⅓ for 150 years; after the return of Julius Cæsar from Gaul it is known that the ratio stood at 1 : 12½. In Japan the ratio fixed by the Government was not successful, owing to the fluctuation of the market price of gold and silver; and in Europe during the period of bimetallism it met the same failure.

With regard to copper coins from China, which still circulated with the home-made coins, the ratio was fixed at 1 Eirakusen to 4 native coins. The Government tried several means of

suppressing the circulation of foreign coins, but in vain ; until afterwards in 1607 it had to enact a law prohibiting the use of the Eirakusen.

In the retail trade, which was composed of small transactions, copper money was more prevalent than gold or silver, and as the trade grew more copper coins were required. The stock of copper money was already below the requirement, and when the Government forbade the use of the Chinese copper coins, the scarcity of copper cash took effect. The Government was unable to meet the demand, hence it was strongly recommended to pull down the statues of Buddha, which were made of copper, and to melt them and make the metal into coins. Consequently, colossal images of Buddha were smelted and made into copper cash. The Government further prohibited the export of money to foreign countries.

The problem of the scarcity of metal was not solved in spite of all the Government's efforts ; and the financial stringency (in 1695) obliged the Shogun to debase the currency in order to increase the number of coins in circulation and at the same time replenish his treasury. New coins were minted to the extent of 20 million ryo of gold and 400,000 kwamme of silver.

Both gold and silver coins had the same weight as those of the Keicho period (1596-1614), but differed in metallic content.

According to Dr. S. Takimoto the differences were as follows :

		Gold	Silver	Alloy
Gold :	Keicho Koban (1601) ...	85·69	14·25	·06
	Genroku Koban (1695) ...	56·41	13·19	·40
Silver :	Keicho Gin (1603) ...	80·00	20·00	
	Genroku Gin	64·00	36·00	

In order to prevent public hoarding of the old coins the Government undertook to exchange the old coins for the new at the ratio of 100 : 101—that is to say 100 ryo of the old coins to 101 ryo of the new—but the ratio was not enough to entice the holders of the old coins, and since the new coins were much debased, the old coins failed to come back to the Government and began to disappear from circulation by the operation of Gresham's Law, by which " bad money drives out good." The Government was obliged to change the ratio several times until it was finally settled at 100 ryo of the Keicho gold to 120 ryo of Genroku. Even then the people did not respond to the Government's call. But recoinage, however, came to the Government's rescue, as the Treasury was in dire financial

distress. By the debasement of the currency the Shogun obtained a profit of about 5 million ryo, and so this method was resorted to again and again. Within the period of Genroku VIII and Shotoku II (1695-1712) the Government recoined gold twice and silver five times. In the last extreme the silver content of a coin was reduced to only 12 per cent. of its weight.

The frequent recoinage of gold and silver, coupled with the fluctuation of the market price of the precious metals, caused a perpetual confusion in the money market, which had a serious effect on prices of commodities.

The price of rice, the staple food of all classes of people, did not then depend on supply and demand but on the fluctuation of the value of money. The price of rice as well as of other commodities jumped at every debasement. In 1695, before the first recoinage, the average range in the fluctuation of the price of rice was between 6·26 to 22 momme of silver per koku. After the issue of Genroku currency (the first debasement) it jumped to a high figure of 109 momme of silver, an increase of between 70 and 80 momme per koku. In the era of Shotoku II (1712) the price of rice increased from 81 momme to 155-201-230 momme per koku. Not only rice but the prices of other commodities also increased enormously. This brought about a general unrest, and miseries assailed the town people who depended on money as their living. The distress gave rise to a clamorous demand for currency reform which became so intense that the Government was obliged to reduce the amount of money in circulation to one-quarter of the previous volume in order to lower prices and to improve the metal content of coins, bringing it back to that of Keicho currency.

The result, if a blessing, was certainly in disguise. The price of rice sagged to 33 momme, leaving the farmers in great destitution, and at the same time a scarcity of money ensued ; consequently the merchant class found itself in difficulty when depression set in. The Government, face to face with a grave problem, resorted to raising the price of rice by artificial means —that is, by reducing the supply. During these years of Kyoho XIV and XVII (1729-32) the Shogunate issued a multitude of decrees ordering the citizens of Yedo (Tokyo) and Osaka to buy rice in great quantities and to store it up. The Government further encouraged the making of *saké* (rice wine) and granted a monopoly to the grain merchant guilds. Despite all such legislation the price of rice did not improve but remained low until 1732. In that year nature came to the

rescue. An army of locusts swept down on the rice fields and ate up tens of thousands of koku of ripening rice in one night. The damage covered the entire area of Kyushu, Chugoku, Shikoku, and Kinai. This natural calamity was looked upon as a boon, because it produced the result for which the Government had been struggling in vain. But it proved to be more than the Government desired. The price of rice soared gaily upward to 130-150 momme of silver per koku, which meant starvation for the poor. The Government hastily undid all the restrictions, reverting to its former policy, forcing the monopolising merchants to sell out at a low price. In the following year, the price of rice went back to its low level and the Government again resumed its restrictions.

The mystery of money is usually not of great interest to the general public, but the whole range of prices on which it played in this case was of vital concern to every citizen ; hence the public commenced to criticise severely the Government policy.

About this time the merchants had gained enough experience to realise the fact that the low price of rice was due to the shortage of money ; the remedy, therefore, had to be sought in that direction and not in legislative enactment. The Government followed the trend of opinion, again introducing a currency reform in 1736. The consequence of this was again inflation ; the market was once more flooded with money and prices again jumped to a high level.

It may be well to make a short résumé of what has already been stated so that clarity may not be lost ; for prior to the Restoration the monetary system of Japan was in a hopelessly confused state.

Some sixty-odd types of coin of all sorts, sizes, and shapes were in actual circulation and their quality was even more varied than the metals of which the coins were composed.

Gold and silver passed current first in the form of flat pieces and granules, afterwards in coins, together with a heterogeneous mass of copper and iron cash. To make the supply of currency more bewildering a considerable volume of Chinese and other foreign coins was permitted to circulate side by side with the already quaint mixture of authorised media of exchange. This unsatisfactory state of the currency system was a contributory cause of the grave internal troubles from which Japan subsequently suffered. Although both gold and silver were employed as standard metals, there was no rigid adherence to a silver or gold standard. The slump of the gold price of silver

in the world market might be taken as the contributory cause of currency trouble at that time ; but, in spite of the fact that Japan, like other Eastern countries, always had a partiality for silver, the currency chaos was due much more to the mismanagement of the monetary system. In the Toyotomi era (about 1585) both gold and silver were coined on a relatively large scale, but owing to the absence of proper laws governing mintage the state of currency was allowed to drift along in a hopeless fashion, until the establishment of the Tokugawa Shogunate in 1600, when praiseworthy efforts were directed toward unifying the currency. The most important step was the minting and issuing of a new gold coin called the Keisho Oban, which took place in May 1601. This may be regarded as the first accomplishment of an honest attempt to put the country in possession of some semblance of a currency system. But the subsequent issue of copper and iron cash by the succeeding Shoguns undid all the good work of the former Government. The issue of copper coins drove considerable gold and silver out of the country.

Only during the beginning of the Tokugawa era was the currency system tackled in the right way ; afterwards it was allowed to drift, until it got out of hand.

As already indicated, there existed during the Tokugawa régime a double standard system ; that is to say, gold was the standard of payment in Yedo and silver in Osaka and the western parts ; the reason being that gold was produced in the eastern parts (Yedo) and silver in the western parts (Osaka, Kyoto, etc.).

Mr. Morisada says : " Gold coins are mostly used in Edo. For instance, rice was quoted in Edo at so much for 1 ryo of gold, while in Osaka and Kyoto the price goes in accordance with the weight of silver."

In 1767 the Tokugawa Shogunate proclaimed that gold and silver were to be the national currency and both were to be legal tender, but copper cash was also allowed to circulate as unlimited legal tender. In big transactions gold predominated and in lesser ones silver and copper.

The ratio between the two precious metals was fixed by law, i.e. 1 ryo of gold to 60 momme of silver, in other words 1 : 12, or twelve silver coins of 5 momme equalled 1 ryo of gold.

The origin of the double standard went back to the thirteenth century, although at that time no ratio had been fixed by the Government, and gold and silver were then interchanged by weight instead of by count.

But to establish a standard there are two essentials; first there must be sufficient supply of the metal intended to be the medium of exchange, and secondly there must be enough commerce to warrant the establishment of a standard. The Tokugawa Government found only the latter prerequisite, since both gold and silver metals were scarce; and although they remained as standards they were used as sparingly as possible.

In using the word standard we must remind the reader that it is difficult to designate the position of currency in Japan at any period prior to the Restoration under any of the heads known to experts of currency nowadays. At no time was there anything corresponding to a standard or to a system in the modern sense. However, when the Government declared the ratio to be 1 : 12, which corresponds to the modern version of mint par, there arose the same difficulty encountered by the Latin Union in Europe. Both gold and silver could not circulate to a wide extent without regarding the market price of precious metals. Once the market price differed from the Government ratio, recoinage had to be done to avoid the operation of Gresham's Law, or else the ratio had to be changed according to the market price. The Shogunate had done both. It recast the coins several times. But at every recoinage the Government thought it wise to reduce the gold and silver content of the coins, partly in order to replenish the treasury and partly to increase the volume of circulation.

It also issued a multitude of decrees altering the ratio from day to day, until trade both external and internal had to be looked at from two angles, as the traders had to take into account at every transaction not only the value of commodities but also the value of money. Only at this time did the idea of obtaining profit out of coinage enter the minds of the Government, therefore this policy was repeated again and again. The consequence of this was a rise in price of commodities, but the Shogunate failed to see that the upward tendency of price level was caused by its policy of debasement and so concluded that the people's luxurious habits were responsible. The Government thought that if luxury could be checked prices would soon fall. This was, of course, a grave error.

Apparently the Government was not satisfied with the chaos which reigned in the monetary system of the country, and it seemed bent on wrecking the wise measures of former Governments by resorting to the suicidal policy of issuing inferior

coinage. But Japan was not alone in its policy of having recourse to the debasement of currency for the relief of financial stringency. Other countries did the same. The result so far as the volume of currency is concerned proved satisfactory to the Treasury, so the process was imitated by the feudal lords who turned out secretly for circulation within their domains great quantities of debased coin. A multitude of coinage regulations were issued by the central Government but were of no avail, as the authorities did not seem to have realised that money, like any other commodity, declines in value when it increases in quantity. Therefore during the Bunsei (1818-29), Tempo (1830-43) and Ansei (1854-9) eras the Government continued to meet the deficiencies of the treasury by the same method. The confidence of the people was diminishing and their distrust of the currency was all the greater when it was found that counterfeits were as abundant as the genuine coins.

The Shogunate did not know what to do, but the situation was saved by its timely exit.

In the eighteenth century there appeared the first Japanese economist who rightly analysed the problem of prices. His name was Miura Baiyen. His treatise, called the *Origin of Prices*, had a good deal of influence at that time. Baiyen clearly states that the more coins circulate in the market the higher will be the price of commodities and vice-versa. The lower price means higher price of gold and silver. Thus the quantity theory as well as Gresham's Law was explained in detail. Although Sir Thomas Gresham was born in 1519 and died in 1579, and Baiyen lived between 1723 and 1789, i.e. over 200 years afterwards, there was no evidence to prove that economic theory had spread from Europe to Japan, since there was no means of communication of ideas between the two continents. It is assumed that Baiyen's notion of the theory of prices was spontaneous, arising out of the money difficulties encountered in his time. But it is quite probable that he might have acquired such knowledge from Dutch books brought over by the Dutch traders. Nevertheless, it takes some time before an idea travels from the study to the street ; so the truth was not realised by the Government, who kept on injecting disturbing factors into the money market. However, the discontent of the populace was intensified by his book. Although currency reforms were introduced many times, yet they were intended to draw gold to the Treasury.

These reforms are not worth mentioning, except the first double standard currency.

In 1772 the Government was stripped of its gold, and in order to overcome the difficulty it caused to be minted the silver coins called Nanryo-Nishi-han, which were made legal tender by decree.

Eight of these coins were to equal 1 ryo of gold. This is the boldest currency reform of the Shogunate. Prior to this reform both gold and silver circulated side by side and no legal ratio was imposed by the Government. The proportion was hitherto regulated by the market prices of the two metals, and both coins were used by weight, not by count.

Since the silver content of the new silver coin (Nanryo silver) was fixed at 97·75 per cent. fine, the ratio became 1 : 9·3 mint par, whereas the relative price of gold and silver in the market was 1 : 15. The result was what might be expected ; consequently in 1779 the Government was obliged to abandon the system and stopped coining the Nanryo silver.

The debasement of gold and silver coins caused a counter-action in the price of copper and bronze coins, which went up at every debasement, causing a shortage of these coins. In May 1736 the Shogunate urged the establishment of private mints and ordered the existing ones to cast more cash according to the Government's specifications. Copper mints were then set up by merchants in various places and large quantities of copper and bronze coins turned out which were sold at a price fixed by the Government, which levied a certain tax upon them.

The business proved lucrative, but before long a scarcity of metal came about, so iron coins were minted instead. The first iron coin appeared in 1736 from the Fushima mint and was called by the name of Hiroshima Zeni. Other mints followed suit, with the result that iron coins were as widely used as copper. Since the price of iron was lower than that of copper, being 4 kwamme 200 momme for 1 ryo of gold, whilst the price of copper was 4 kwamme, 1 kwamme of iron coins was equivalent to 21 momme 7 bu of silver.

Although copper, bronze and iron coins were used they were token coins only in practice and not in theory, as no limit of circulation and of legal tender was prescribed by the Government.

During this period there was a jumble of currency in use. Gold, silver, copper, bronze, iron, each of various marks and denominations, circulated side by side, and repeated attempts to standardise currency completely failed. The chaos and confusion in the money market can more easily be imagined than described.

The problem was not solved until the fall of the Shogunate in 1867.

The Imperial Government, fully conscious of the painful urgency for monetary reforms, put its heart and soul to the task. The economic trend of the whole nation, and, in the narrow sense, the currency policy of the late Shogunate, was towards bankruptcy; but thanks to the Government's wisdom and foresight a formulated plan of national currency was carried out over a period of years with remarkable success, though not without trouble and tribulation.

In 1868 the standardisation of currency was seriously studied and a year later a working solution was devised, in accord with which the Government announced its adherence to the silver standard supplemented by gold coinage. At that time Prince Ito, a prominent politician, was in America studying the American Constitution. He was much impressed by the gold mono-standard, so he advised his Government to adopt the gold standard instead. Thus the new system, not yet given a chance to prove its usefulness, had to yield to its rival the gold standard. New regulations were issued in May 1871. A 1 yen gold coin weighing 23·15 gr. was made the standard unit, and together with it other gold pieces of the value of 2, 10 and 20 yen were put into circulation, all of which were legal tender to any amount. Silver and copper coinage were relegated to the rank of token coins and only limited legal tender.

The influx of Mexican dollars caused great concern to the Government, which afterwards hit upon the expedient of minting a silver coin of the value of 1 yen, equal in weight and quantity to the Mexican money. These new silver coins were intended to supplant the Mexican dollars, hence were legal tender only within the limits of the Treaty Ports. Their gold value was fixed at 100 silver yen to 101 gold yen, or a ratio of 1 of gold to 16·014 of silver.

When the price of silver declined in the world markets the gold value of silver fell from 59¼d. per ounce in 1873 to 49d. per ounce in 1876, while the relative value of the yen was pegged at 1 of gold to 20 of silver.

Although the Government had taken the right step, yet in the absence of any embargo on the export of gold the gold yen left the country steadily. Scarcity of coins was experienced, and owing to the increasing demand for currency, the Mexican dollars stood at a high premium. The Government endeavoured to stem the tide by issuing new silver yen 4 gr. heavier than the old ones, i.e. weighing 420 gr. instead of 416 gr. and declaring

1 silver yen equal in value to 1 gold yen. But these measures were of no use, as foreign payments were made exclusively in the more valuable metal, causing a continual outflow of gold. All this to the contrary, the Japanese are a shrewd people. They did not hesitate to let the more valuable coins go into the melting pot until finally every gold coin vanished from circulation.

In May 1878 the Government, cognisant of the gravity of the prevailing conditions, took about the best step possible under the circumstances, and made the silver yen legal tender throughout the empire. Only when the gold price of silver improved did the Government reduce the coin to its former weight of 416 gr. That was in November 1878.

The policy of the Government was then directed towards stepping over from monometallism to bimetallism minus the gold.

Now we shall turn to the paper currency, which has been the prolific mother of mischief for Japan these many centuries, principally owing to the excessive issues. Even during the Meiji era both convertible and inconvertible notes were passed as current notes from time to time, the reason for which will be discussed in Chapter VII.

Suffice it to say here that when Emperor Meiji took over the administration of the country the treasury was emptied of its precious metal; hence the issue of Treasury notes to cover the heavy expenditures which on political grounds could not be digested by fiscal revenue. The outbreak of the Saigo rebellion in 1877 threw the Government into a bitter plight, and so the issue of inconvertible Treasury notes was resorted to. Meanwhile the notes of the various national banks established at the beginning of this era (see later chapters) and before the birth of the Bank of Japan, which were hitherto redeemable in specie, were made convertible into inconvertible Treasury notes.

This operation led to an alarming increase of the inconvertible paper, until it reached a dangerously high level.

The deadline was felt in April 1881 when the inconvertible notes had so heavily depreciated that the Government was obliged to take immediate steps.

"The task was undertaken with a zest never before witnessed in Japan; and not only did the financial administration proceed systematically to redeem the Government paper currency, but it also withdrew the note-issuing privileges of the national banks."—(W. F. Spalding.)

Not only the heavy depreciation in the paper money but also

the confusion caused by the different notes of different banks of issue and the lack of a central control were perceived, and therefore the Bank of Japan was instituted in 1882 and made the sole bank of emission. The issue privilege previously granted to all the national banks was withdrawn. Various steps were at once taken to accumulate a specie reserve in the central bank on the basis of which, by virtue of the powers provided for in the Inconvertible Bank Notes Regulations in May 1884, permission was granted to the bank to put into circulation a limited amount of inconvertible notes.

The cumulative efforts of the Government and the bank successfully tided over the serious situation, which was verging on collapse, and resulted in a great reduction in the notes in circulation. Moreover, the effective control over note issue which it was now possible to exercise through the central bank brought the value of the existing notes up to par and put a curb on the outflow of gold from the country. The situation was so much ameliorated that by June 1885 the Government's reserve of specie held in the bank against notes had accumulated to a satisfactory level. The Government then announced that specie payments would be resumed from January 1886. By December 1899 the authorities were able to prohibit entirely the circulation of national bank notes and by December 31 of the same year the circulation of Government notes was also stopped.

Meanwhile many nations confronted with the failure of bimetallism were converted one by one to the gold standard faith. Consequently the gold price of silver, which had been fluctuating widely, commenced to depreciate, causing great hardship to the Eastern countries, including Japan.

Prof. F. W. Spalding explains in these terms why Japan should have suffered economic loss from the depreciation of silver : " While in theory she [Japan] ranked as an adherent to bimetallism, yet, in practice, her system of currency had all the essentials of a silver standard ; and as her gold always promptly disappeared from circulation, the country was left with all the disadvantages of a silver currency and none of the benefits—real or imaginary—of a bimetallic monetary system."

The depreciation of the currency due to the depreciation of the gold price of silver and the shortcomings of the currency system did not escape the shrewd mind of the Government, therefore in 1892 a commission was appointed to formulate a plan for currency reforms. After two years of thorough study the committee gave its opinion that the Government

should follow the lead of other countries and substitute bimetallism for the gold standard.

Fortunately the funds necessary for the carrying out of the reforms recommended were at hand in the shape of war indemnity exacted from China to the amount of 360,000,000 yen in 1895-8 payable in gold.

The Government then decided to give effect to this recommendation. A new coinage Act was presented to the Diet in March of that year. The Act was passed with minor alterations and became law on October 1, 1897.

By this Gold Standard Act of 1897 the yen was made standard unit and the gold content of it was reduced to one-half of the old yen containing 11·574074 grains or 0·75 grams of pure gold.

The principal points of this Act may be summarised as follows :

1. The coinage unit is 1 yen containing 0·75 grams of pure gold.

2. The standard gold coins are of 5, 10, 20 yen and the former gold coins are to pass for double their nominal value.

3. The subsidiary coins are of silver and of three denominations : 10, 20, 50 sen. The former 5, 10, 20, 50 sen silver pieces are allowed to circulate.

4. Other subsidiary coins are nickel 5 sen pieces and bronze 1 rin and 5 rin pieces. The former 1 and 2 sen and 1 and 5 rin copper pieces are allowed to circulate.

The former 1 yen silver coin was exchanged for a new gold coin at the rate of 1 gold yen for 1 silver yen. These coins were completely withdrawn in July 1898.

With regard to paper money, the Convertible Notes Law was promulgated in May 1884. This law provided for the issue by the Bank of Japan of bank notes convertible into silver on demand. After the enforcement of the Gold Standard Act in 1897 the existing notes became convertible into gold.

The par exchange of the yen with reference to the standard units of the U.S.A., England and France was as follows :

1 yen = 24·58217 pence
1 yen = 49·845 cents
1 yen = 12·72265 francs

or £1 = 9·76317 yen
$1 = 2·00622 yen
F1 = 0·786 yen

But the castles had to be fed and furnished with necessary commodities, including food. The Daimyo and Samurai were not productive, and together with their retinues constituted a class of consumers, so a considerable amount of consumption goods had to be supplied by the villagers, both farmers and artisans. We see then that wherever a castle was constructed, a large number of people congregated around that place in order, first, to cater for the necessities and comforts of the inmates of the castle, and, secondly, to trade among themselves. Houses multiplied rapidly and the place soon became a town and a trade centre, but business was still confined within the precincts of the settlement.

According to Prof. Takekoshi there existed up to the beginning of the seventeenth century 260 of such castles, each with its own town surrounding it. Some of these towns were highly developed and extremely prosperous, such as Kamakura, Odawara, Sakae, Osaka, Kyoto, to mention only a few, which were ruled by such powerful barons as Hojo (1199-1333), Ashikaga (1334-1573), Toyotomi (1582-1608).

During the first half of the sixteenth century there was born a genius both in strategy and in politics by the name of Iyeyasu, who in 1608 subjugated almost all the powerful barons and made himself supreme. He was the founder of the Tokugawa Shogunate. It was due to his wisdom in administration as well as his strength in warfare that Japan was united under his banner. He was a French Napoleon with the craftiness of a Bismarck. Iyeyasu established his headquarters in Yedo (now Tokyo) and took as his abode the castle built by Ota Dokan, now serving as the Imperial Palace.

As a guarantee of security he ordered all the feudal barons who were overpowered by him to keep their wives and families in Yedo, and themselves to come to live with their families every other year. He, moreover, interchanged their territories so as to sever their connections with the people formerly under their control; and sometimes a powerful lord was given a domain to govern far away from the centre of power, with a view to weakening his influence.

By virtue of this policy the Tokugawa Shogun were able to live at ease for 250 years without rebellion; and for the first time Japan enjoyed peace and tranquillity.

The Shogun's domain extended only over Yedo, Kyoto, Osaka, Nagasaki, Urawa and Sakae; the rest of the country was still under the direct control of other independent lords. The towns under the Shogunate were improved and intercourse

opened so far as it conformed to the defensive policy. But the economic life grew because of this improvement, and the population increased. The most striking example was Yedo, which had been only a poor sparsely populated village surrounding the castle of Ota Dokan.

Formerly this castle was but a simple witness to the rise and fall of various barons; but after 1608, when it was taken by Iyeyasu, it became the centre of administration of an unconquerable Shogundom.

The political situation served at the same time as a stimulant of economic growth. When various Daimyo and Samurai had their families in Yedo and they themselves with their retinues came and went, the demand for consumption goods increased, giving impetus to supply; hence trade made gigantic strides. People were drawn to Yedo to trade, so they congregated around the castle, some as traders, others as artisans. Shops cropped up like mushrooms on what had been waste ground. In a span of only fifty years Yedo sprang into greatness; from 1590 to 1936 this village was transformed into a metropolis which ranks next after London and New York. The population increased from a mere thousand to 6 millions.

Not only Yedo but Osaka also gained strength. Osaka, however, had already become a progressive seaport before Yedo attained greatness. This was owing to its advantageous position for distribution throughout the country, including the busy west, and its reflex influence upon its own growth, for trade generally goes where trade is. Its reputation for prosperity brought forth more prosperity. Since the middle of the fifteenth century, the end of the Muromachi period, Osaka had been the centre of politics and commerce and the seat of the Government of Hideyoshi (1582-93), so it is but natural that Osaka was, and continues to be, the greatest port of Japan and has well earned the appellation of "the kitchen" of the Empire.

Up to 1665 the population of Osaka was only 268,760. In 1935 it totalled 2,989,866.

Osaka, however, encountered a set-back when Yedo loomed up as her rival during the Tokugawa period. Public works were not improved, owing to the tendency of the Tokugawa to rule by separation. Probably without knowing it they were carrying out the motto of Louis XI of France, "*divide et impera.*" Rivers and mountains were preserved and few bridges built across. Highways were cut up into sections by rivers and ravines. To go to Yedo from Osaka the palanquin was used, and

the journey, which now requires only eight hours by railway, took about thirty days. The palanquin carriers were nicknamed men of clouds, as they had to wander over the mountains amidst clouds. As commerce grew the need for better communication made itself felt more and more, but the Shogunate obstinately resisted the public need. This attitude made the markets of Osaka and Yedo independent of each other, and prices of articles varied a good deal.

In Europe fifty years ago, while wheat might be selling at 15s. a bushel in Dresden, the value in Odessa was probably a shilling. The same conditions prevailed in Osaka and Yedo. Difficult transportation widened the margin of difference in prices.

In 1619 a company, called Hishigaki Kaisen Donya, composed of big Osaka merchants, was founded to trade with Yedo, supplying the latter with liquor, vinegar, bean-sauce, lacquer wares, paper, cotton goods, hardwares, straw mats, etc. Owing to the lack of national highways, transportation was done by sea. But because of the primitive knowledge of navigation, only small sailing boats were used ; the biggest could carry only 1,000 koku of rice. These boats plied along the coast, keeping as near as possible to the shores, in order not to lose sight of landmarks. The business proved profitable, hence in 1772 another company, called Tarusen, was launched. Although they were competitive, each was doing a thriving business. These two companies afterwards obtained charters from the Government by paying so much " thanks money " every year, in exchange for which the Government protected their interests by not allowing any new company to be floated.

The monopoly of transportation gradually took the form of exploitation, and at the end of the eighteenth century such advanced economists as Honda Rimei and Hanzu Kumagoro propagated the idea of State socialism. They advocated that transportation, which was of primary importance to inland trade, should not be left to the caprice of the merchants, thus leaving the traders to the mercy of these two companies. The Government, swayed by such arguments, withdrew the charters given to the two concerns, and declared that everybody was free to engage in transportation. The consequence of this was cut-throat competition.

At this time rice was still in use as a medium of exchange, but before long the artisans and traders found that they were handicapped by using rice as the standard of value. Not only

were the commodities they dealt with limited in quantity and variety, since the luxuries that one needed and could command were extremely few, but they had to accept rice in payment; and rice, being perishable, could not be stored away indefinitely nor entrusted to a neighbouring market in exchange for a promise to pay. Therefore when money appeared both trade and production gained further impetus; and the artisans not only produced for exchange of food and other goods enough for their homely wants, but began to create out of their money profits a certain portion for future use. The number of artisans and traders multiplied and they combined themselves into associations and guilds. Division of labour and specialisation of business followed in the wake of money profits; and the manufacturers and merchants, formerly one and the same class, drifted apart into two distinct classes.

In the first part of the eighteenth century various craft guilds were organised and subdivided, each becoming more and more powerful and at the same time more and more rigid in its regulations. There were at that time guilds for carpenters, sawyers, bricklayers, plasterers, masons, and mat-layers, each guarding jealously its own interests; and conflict between them was rife. Even the merchants had their own guilds, such as wholesalers, middlemen, etc. The strong competition between them threw these guilds into the arms of the Government. Those which were hard pressed or found themselves in an unfavourable position would seek the Government's protection by offering to pay an annual sum of money. As the Government was much in need of money, it readily accepted such an offer and granted special favours, such as compulsory membership, by decrees or charters. But the number of new members quickly increased to the detriment of the old members, so the guilds applied to the Government again to limit their membership. As the charters designated the trade areas and spheres of activity, no one could become an artisan or trader without being a member of one of the guilds.

Since the guilds were much subdivided, disputes on overlapping arose. If the carpenters sawed the wood themselves, the sawyers' guild would object and petitions would be sent to the Government. To get their petitions accepted the petitioners had to pay a certain sum of money called "thanks money."

"Thanks money" was usually paid annually and differed in different guilds, each one trying to outpay the others. According to Prof. Takekoshi the guild of wholesalers in silk, for instance, paid 30 kwamme of silver, while each member of

the cutters' guild paid 3 mon of copper to the Government for every knife its members sold. A guild of fishmongers paid 1,500 momme of silver, and so forth. Consequently this "thanks money" became an important source of revenue for the Shogun, who was therefore more disposed to grant the greatest privilege to the highest bidder. But the Government, anxious lest public opinion should turn against it because of accepting this kind of bribe, safeguarded to a certain extent the interests of the public by such means as preventing the guilds from levying too much money for entrance fees and for membership as well as other subscriptions.

Each guild elected from among its members one or more officers to look after the interests of the guild and to conduct such general business as collecting dues, keeping records, paying "thanks money" to the Government, etc. In some guilds the members took turns in holding office, the term being generally one year. Common interest was strictly safeguarded and members had to adhere minutely to the resolutions of the conference, in which all the members took part in deliberation, on such questions as output, working hours, prices and number of employees.

No one was allowed to employ an outsider or take in an apprentice without the approval of the other members of the guild.

An apprentice had to serve ten years on an average, with an addition of a few more years, called voluntary service, to show his appreciation of the kind instruction of the master. Then he was made a member, possessing the privilege of opening a shop provided there was a vacancy; otherwise he could only manage a branch of his master's establishment.

By virtue of the Government's patronage and the rigid regulations within their own organisation, the guilds became increasingly powerful; and as no outsider was allowed to compete in the same trade, the guilds by fixing prices at will gradually degenerated into agents of exploitation.

The public was thus driven to the mercy of these guilds, and complaints were rife. Many times the Government had to intervene, but without effect. The public's attitude became threatening, by accusing the Government of accepting bribes from the guilds to enable them to exploit the masses. In 1842 the Government could not resist the growing menace, so it dissolved all the guilds. But it was too late. When the guilds were all abolished the few big merchants found themselves liberated from the regulations of the guilds and commenced to

oppress the smaller ones by unscrupulous means, until they came to monopolise certain trades. The people, finding themselves deeper in the mire than when the guilds were working, again clamoured for more measures; and in 1851 the Government reinstated all the guilds; but this time certain reservations were made, such as forbidding unlimited membership and monopoly of any kind. The machinery of the Government was, however, far from efficient in coping with the law-breakers, consequently the upward tendency of prices got out of hand, and plunged the country into all the extravagances of a crisis.

In 1867 the Shogun went so far as to establish offices of censorship to deal with profiteering, but before the efficiency of these bureaux was tested the Tokugawa Shogunate was brought to a close. Thus ended the period of national dilemma.

While trade and commerce continued to grow, the conditions of currency became worse and worse. The demand for coins increased and such demand caused a great disturbance in the market. At the shortage of money the irrepressible quantity theory asserted itself, advancing the prices of commodities. The exigencies of the situation proved no help towards an improvement in the currency system, and conditions continued to grow worse year after year. The Government did nothing but continue with its decrees. Instead of attacking the evil at its source, it kept on injecting further disturbing factors, trying to remedy the situation by legal force, which only brought the crisis to a head.

The fires of progress were not fed by the additional supplies of money but by decrees and regulations. Thinking that the rise in scale of living was occasioned by the extravagance indulged in by the populace, the Shogunate promulgated edicts galore, commanding the people to do all sorts of things, as, for instance, regulating prices of clothing and even prohibiting the sale of cloth which the Government considered too expensive. It also forbade the tailors and embroiderers to accept unusually luxurious orders from their clients. Such laws and regulations were powerless against economic forces, and the new mode of living, in line with the economic transformation, continued unrestrained. Instead of using expensive cloth for their *kimono* the women used expensive linings and underwear, and luxurious linings and underwear became the fashion of the day.

These manifestations were the outward signs of a deep inward change. The Tokugawa Shogunate broke down under the stress

of a changed society, unable to play the part for which it was cast. Security seems to have been the Government's only preoccupation, and the fear of enemies drove the Shogun to take various measures detrimental to trade transactions which are intended to maintain or add to the comforts of the individuals composing a State.

Sensitive and suspicious to the utmost degree, the Tokugawa Shoguns employed every means to destroy the power and influence of men outside their own circle. They closed the entire country and sacrificed all the benefits resulting from the expansion of trade and commerce.

In 1639 the Government found itself in danger of a Jesuit invasion, which threatened to undermine the Japanese ideals and institutions ; but instead of striking the danger at its roots, it barred the doors to the Portuguese and Spanish traders, all of whom were accused of engaging in religious activities. The Chinese and the Dutch, however, were allowed to trade until 1685, at which time the Government, overcome by a new fear that the masterless knights who had gone abroad might get support from foreign capitalists and foreign powers, limited the amount of trade with the Chinese to 6,000 kwamme of silver and that of the Dutch to 50,000 ryo of gold. Again, in 1688 the Shogun restricted the number of Chinese boats admitted to Japanese ports to seventy and the Dutch to thirteen.

Not only was commerce being stifled but inland trade was also hindered by every means. The merchants were treated with excessive arrogance and the thriving ones were despised and suspected of scheming against the State with their immense wealth. The Government went so far as to confiscate by force the property of the rich merchants who lived luxuriously and extravagantly. One such victim was a merchant of Osaka named Tatsugoro Yodoya. The Government broke up the house of Yodoya with its wealth of 121,867,610 ryo of gold, seized all his property and decapitated the manager. The master of the house was only 19 years of age, having inherited all this wealth from his father. His life was spared only at the plea of the abbot Yawata. The confiscation and punishment inflicted on Yodoya was followed by similar actions in Kyoto and Yedo.

This tyranny was imitated by other barons, who found it the easiest means of settling their debts.

By that time the Daimyo and Samurai had already acquired the habit of borrowing from the rich merchants, who were led to accommodate them by the vision of easy profits. But the

merchants soon found that these Daimyo and Samurai were indeed promising borrowers but dangerous debtors. In spite of all the contempt and prejudice heaped upon the merchants, this class continued to swell in numbers.

In the era of Kan-ei (1624-43) lived a prominent merchant by the name of Ishikawa Jian, whose family history was without parallel in the chronicles of war-like Japan. The ancestor of Ishikawa Jian was the Lord of Inuyama castle in Owari, who, although he wielded great military power, one day abandoned his troops and followers and transported all his treasure and family to Kyoto, where he turned merchant. This extraordinary behaviour, which reduced him from the rank of a lord whose sword was law to that of a merchant who could only with difficulty enter the presence of Daimyo, and who had to shrink before a simple Samurai, proved lucky enough in the end. He soon accumulated wealth and his sons and grandsons were millionaires. Ishikawa Jian was one of his descendants of the third generation. Jian thought that by lending money to the embarrassed Daimyo, who were children in the matter of business, he would get easier profits than by dealing with other traders who were equally shrewd in the matter of money; thus he departed from the policy of his forebears. In the end he was paid in blood, and the house of Jian, which had been accumulating wealth for three generations, fell victim to the tyranny of the barons.

Other cases like this were recorded, showing that numberless merchants were ruined by the Daimyo and Samurai. Only when the former combined themselves into guilds was this danger lessened. Afterwards, when the Government was hard pressed for money it had to appeal to the merchants for help and succour. The merchants became so rich and influential that the public had more confidence in them than in the Government.

The development of the money system broke down the self-sufficient economy of old Japan and obliged each province by the division of labour to seek a special line of trade according to its aptitude.

The steady development of money economics brought about a wage system and a further accentuation of the division of labour, which slowly undermined the local economic crafts or household industries similar to those of Europe in the sixteenth century.

Internal trade expanded in places, transforming the castle towns into cities. Barter and payment in kind, even in the

hinterland, was replaced by money exchanges. Even the Daimyo and the Samurai, who formerly believed only in sword and physical skill, were gradually brought face to face with this new formidable power—the power of the purse. The way of living, also habits and customs, had to change to adapt themselves to the new situation effected by money economics.

CHAPTER VII

From an Exchange House to a Bank

From Chapters V and VI we have learned of the muddle of currency in the Tokugawa period, and the wonder is that the Japanese people were able to do any business at all. But gigantic evils often work their own cure. Before the Restoration the chaos of currency enticed many merchants to take up the avocation of money-changers. These exchange merchants, although they worked for their own gain, did, nevertheless, render considerable service to the general public, for without them, owing to the jumble of currency, it was wellnigh impossible to effect any transaction.

When rice was the only important commodity bought and sold in great quantity, rice brokers appeared and with them the rice exchange.

The feudal lords were the big sellers of rice, and since Osaka was the only port and the commercial centre at that time a large part of the rice passed through Osaka. In 1513 there were already 1,300 rice brokers, who were furnished with cash accommodations by fifty money-changers.

Business instinct and long experience had stood the people of Kamigata (the province around Kyoto, Osaka, etc.) in good stead. The Daimyo and Samurai were no match against them in business tactics. In course of time these rice brokers succeeded in manipulating the rice market in such a way that they could dictate the price of rice all over the country.

Business flourished and technique rallied to the call of convenience; hence, in the eighteenth century, rice tickets became full-fledged instruments of credit, employed as money certificates.

Samontaro Aiki is credited with this device. He was given a contract for the transportation to Osaka of produce from the sources of supply owned and controlled by the various feudal barons. He received signed permits to take delivery of rice

from the clan officials. Possessing insufficient capital to lay out in advance for labour and transportation, he devised means of using these signed permits called rice tickets as negotiable bills. The idea succeeded and the rice tickets were freely bought and sold, affording him the means of advancing money to the feudal lords who were the owners of stocks of rice. Owing to the great convenience and facility brought about by using the rice tickets the grain merchants readily seized upon the opportunity to render the rice tickets universally negotiable.

Rice trade made so great an advance that it not only gave rise to the rice exchange but brought about a brisk speculation. Although the Government prohibited gambling in any shape or form, rice speculation was indulged in under various expedients.

"Just as in war, when the strength of the opposing armies is fairly matched and each party tries to find a weak point in the other and does not move until it is found, similarly when the price of rice is stationary and shows no signs of fluctuation, the speculators in rice turn their eyes from rice to some other commodities such as gold and silver and stir up the quotations in order to influence the price of rice."—(Takekoshi.)

Thus the rice exchange greatly stimulated the gold and silver exchange. Since gold coins were the standard of payment in Yedo and silver coins in Osaka, the exchange rate between gold and silver became a matter of importance, and fluctuation between them allowed the exchange merchants a large margin of profit. The exchange business became so active during the Genroku age (1688-1704) that the money-changers employed swift couriers between Yedo and Osaka to keep them well posted as to the latest rate. For instance, if the relative price of silver against gold declined the price of rice would of course rise to meet the temporary necessity for more silver, and vice versa. Therefore, the rice merchants as well as the money-changers keenly watched the market ratio. Owing to the demand for quick news the means of communication between Yedo and Osaka was somewhat improved by these merchants. By means of this quick news it was possible for the rice traders in Osaka to control the speculation, as well as the commodity prices and money ratios.

In the Tokugawa period (1608-1868) there existed in both Osaka and Yedo exchange houses, money-lending houses, lottery associations (Mujins) and pawnshops, among which the exchange houses rank as the oldest.

According to Dr. Takekoshi the exchange house was already in existence in the eleventh century.

The business, then, of changing one kind of money to another became so extensive that during the latter part of the Ashikaga period (1334-1573) a street in Kyoto was named Exchange Street. In those days, as previously stated, the coinage was not a Government monopoly, but was undertaken by private people as well as by the feudal barons. Had the Government monopolised the mintage, the coins would never have circulated, simply because the authority as well as the credit of the State was not enough to guarantee the success of the issue. On the other hand when a variety of currency circulated, each sent out by an individual, the credit of that individual became all-important. That is why each coin bore clearly the stamp of the issuing house, to guarantee its genuineness as well as the quality and weight of the metal.

The history of coinage in Japan dates back to the same period as money exchange, and both developed side by side.

During the latter part of the Tokugawa régime great embarrassment was experienced by the general public, owing not only to so many kinds of currency being in use, all at different relative values, but to the multitude of decrees changing the ratios almost every day. Naturally a terrific confusion arose in the money market.

That enormous losses must have resulted from such a state of things is, to the Westerner, obvious at a glance; but the Japanese people were so accustomed to inconveniences of this sort that they seemed almost unconscious of their existence. However, the money-changers reaped great profits amidst the chaos. Most of them fixed the ratios arbitrarily themselves until the Government took steps to stop it. In 1711 a Government decree was promulgated restricting exchange operations solely to authorised money-changers who were provided with Government licences.

Of course the Government licences could not prevent the money-changers from taking advantage of the public's ignorance; on the contrary, they helped to free the big exchange merchants from severe competition, so the exploitation continued unabated. Three years later the Government ordained that those guilty of taking unfair profit from money-changing should be severely punished and that informers would be rewarded with the property of the culprits.

Out of some 650 groups of licensed money-changers some twenty-seven were the most influential. These latter gathered at the market square during the night and fixed the exchange rates for the following day. In this way the money-changers

absolutely controlled the money market. They were able to raise rates at will. The charge for exchange was formerly 20 mon (4,000 mon of copper = 1 ryo of gold) of copper money per ryo, but it was gradually increased, until in the middle of the eighteenth century it rose to 200 mon per ryo.

The cry of distress against the tyranny of the money-changers reached its zenith in 1842, and the Government dissolved all the money guilds as well as others. But this draconian measure produced the opposite effect from what was expected, as more confusion reigned in the money market. Nine years later (1851) the Government was obliged to reinstate all of them.

The distress was not alleviated until the fall of the Shogunate.

These money-changers were the prototype of the present-day bankers. During the feudal period certain types of banking operations were already conducted by the exchange merchants, who acted also as fiscal agents for the Government and for the important feudal lords. They were accustomed to making loans and receiving deposits, the receipts of which in various denominations were used as accommodation bills. We will discuss these operations in detail.

These exchange merchants, on becoming numerous, combined themselves into guilds and centralised their business in a certain part of the city. For instance, at Yedo they assembled at Hon-Ryogaecho and Shin-Ryogaecho—the former is called today Nihombashi and the latter Ginza. Anybody who wanted to change money had to go to Nihombashi or Ginza.

A money-changer would first own a small shop, or even a single bench placed by the side of the street where he attended to business, but when he became flourishing he would take a shop, enlarging it gradually with the increase of transactions. These offices not only did money-changing but entered farther and farther into the field of banking, offering such accommodations as discounts, transfers, deposits, loans, etc., until they became one of the most important institutions in the Tokugawa period. They were really the forerunners of the banking institutions of Japan.

The word bank comes from the Latin and means a bench, signifying the bench of the money-changers. We are aware, also, that banking in Europe developed in the same way as in Japan; that is to say, from the business of the money-changers in the streets of Florence. These Florentine merchants set up their benches by the side of the streets, on which they attended to their daily routine, and when they failed the populace would

break up their benches. Since then a business failure is called bankruptcy; in other words, broken bench.

The exchange business of Yedo was copied from that of Osaka, the birthplace of all Japan's economic activities; but as a matter of fact not only Osaka but Kyoto, Otsu, Sakae and other cities of the western part of the country surpassed Yedo in business and initiative.

It is generally accepted that exchange and the accommodation bill system was perfected by Gohei Tennoji-ya, a merchant of Osaka in the seventeenth century. In 1662 a gold and silver exchange house was established by the money-changers' guild and quotations fixed for the relative values of gold, silver and copper coins. In the early days both the rice exchange and the gold and silver exchange transactions used to be settled during the burning out of an incense stick. The reader may recall that the transactions of the London Exchange in the seventeenth century were completed during the time a candle burnt out.

At first the standard of transactions was the Koban coin; but owing to the limited numbers of this coin, smaller gold money, such as 2 bu or 3 bu gold and also silver money, occupied this important place in business. Settlements were all made in cash. In 1695 when the Government issued the debased currency there arose a wide fluctuation of relative values of different coins, old and new; but fluctuation was also artificially stirred up by the rice merchants in order to change the price of rice, with the result that gold and silver became objects of speculation; and many people tried their luck at the exchange house.

The procedure was as follows:

"At a certain hour agreed upon between the buyer and seller, both parties deposited a certain sum of guaranty money. When the day of settlement came they compared the price they had gambled on with the prevailing price, and the difference was paid out of the deposit, the exchange house receiving a certain commission from both buyer and seller."—(Takekoshi.)

Legally speculation was forbidden by the Government, so this gambling was done in secret.

In 1695 by Government decree all transactions based on Koban gold had to be done strictly in cash. In 1696 the Government prohibited all transactions of a speculative nature at the exchange, and only in 1725 did the Government legalise the exchange houses.

Every day when the gold and silver exchange was over,

transactions would turn to copper zeni based on the day's quotation of gold and silver.

In the Osaka exchange all transactions were also done in cash, but afterwards time bargains were introduced. At first the Government did not approve of them, but later it yielded and two more exchange houses were opened, owing to the expansion of business. Afterwards their number increased to hundreds.

In 1718 the Government, in course of reorganising the trade system of Yedo, thought it best to limit the number of exchange houses in Yedo to 600. But the Kanyeij temple in Uyeno (later a district of Yedo) had given concessions to forty-three exchange houses established within its own territory, and since its influence was so great the Shogunate had to recognise these houses as legal; so the total became 643 instead of 600.

At that time the profit of exchange merchants was a subject of envy. Originally the profit took the form of a commission which was charged for changing one kind of money for another at the rate of exchange fixed by the merchants themselves; but later, when the demand increased and a certain quotation became fixed, the merchants took only what they called a commission. Generally the profits of an exchange house were derived from three sources: first, the commission as stated above; second, the difference between the daily quotation of gold, silver and copper and the actual price; third, the interest on the money they lent out.

In Osaka as well as Yedo exchange houses received deposits from their customers; at first as a favour, so no interest was given. Afterwards, in order to attract funds, a slight interest was allowed on an important amount. Kyoto was the first to give interest on deposits; Osaka and Yedo followed suit. The most important investments of an exchange house were the loans to the Daimyo and merchants of good standing, bearing interest at the prevailing rate fixed by the guild.

The exchange houses had to pay a tax to the Government for the exclusive right granted; this tax increased in proportion to the amount of business. In Yedo alone their turnover in the year 1780-1 totalled 1,981,147 ryo of gold. At first the Government claimed 35,000 ryo a year, but the merchants appealed against this demand, so a compromise was reached at 20,000 ryo.

In return for the levy the number of exchange houses was limited to the existing 643, thus giving the houses exclusive control not only over exchange business but over its ramifications—that is, practically over the whole sphere of trade.

The exchange houses in Osaka dealt both in cash and credit: they either lent out cash or issued *tegata*, which corresponds to paper money in modern parlance. Gohei Tennoji-ya was the originator of the system in the seventeenth century.

In dealing with deposits received from customers, which generally were current deposits, the exchange house issued to the depositors what was called *Furidashi Tegata*, either of one or of several denominations, the total value of which covered the whole amount of deposit.

This kind of *tegata* was nothing more or less than gold or silver certificates, in other words notes, as they could be presented for cash at the issuing house or at their correspondents. These *tegata* were taken also as collateral security of the first class. When the exchange house granted an overdraft it would issue *tegata* to the borrowers. So we see that the exchange house had most of the functions of a modern bank.

The *tegata* were widely used in Osaka in the era of Genbun (1736-40), bringing about a great change in the character of trade and also in the business of the exchange houses.

Formerly only coins were changed from one kind to another, but later *tegata* took the place of coins; thus money-changing became a financial dealing and the use of *tegata* spread more and more.

Since Osaka, in the latter part of the Tokugawa period, controlled no less than 70 per cent. of the whole financial strength of the Empire, and the merchants all over the country were dealing with Osaka, the use of *tegata* extended to every town. Still their use was more or less confined to big transactions and among traders. The usefulness of *tegata* impressed the feudal barons, so later each lord issued his own *tegata* to be used within his own domain. The use of *tegata* became so widespread that the Government had to regulate the system so that any one kind of *tegata* could be honoured under legal obligation only within the issuing territory, whereas gold, silver and copper were to be accepted throughout the country. At that time the transport of specie from place to place involved difficulty and danger, owing to the primitive means of communication and to highway robberies; therefore the merchants naturally preferred *tegata* to coins. Besides, the demand for an increasing volume of currency to meet the proportional increase of the volume of trade was not met by coined money, and business was considerably hampered by the shortage of specie. This again enhanced the importance of *tegata*.

Another reason was that the different clans which sold rice

and other produce of the land to Osaka preferred to have their accounts settled at Yedo instead of Osaka, because they had their wives and families in Yedo and they themselves came and went there ; hence the *tegata* were found more convenient for this purpose.

A fourth reason may be attributed to the difficulty of detecting a genuine coin from a false one. There was not one kind of coin only, but multitudes of genuine coins of different marks and places of issue, and the marks and seals stamped on the coins were diverse and complicated. For instance, the Koban coins alone were of various makes, although all were of the same size; but each make bore the special seal and stamp of the manufacturer ; and the same case applied also to other coins, gold, silver and copper. So to tell a genuine from a false coin was extremely difficult ; all the more so when there existed a great number of counterfeits. Since the genuine coins were cast from moulds, instead of struck from die as at present, the work of counterfeiting was rendered easy and simple. False coins were so much like the genuine ones and almost as widely used that whenever a person received gold or silver coin in payment he had to go at once to an exchange house and have the coin tested then and there. It needed an expert every time, and on many an occasion even experts were deceived ; therefore big transactions in actual specie were done only among the exchange merchants, and on other occasions *tegata* were used in place of specie.

It was not surprising, then, that the *tegata* system subsequently gained widespread popularity, until even a payment of such a small sum as 10 momme was effected by *tegata* instead of coins.

The *tegata* issued in Osaka were recognised and honoured all over the Empire, thanks to the credit of the Osaka merchants in general.

These *tegata* were of several kinds :

1. *Azukari tegata*, issued by an exchange house against deposits and payable to bearer. This kind was of different denominations as the depositor desired. They were similar to the gold or silver certificates used at present in the United States.

2. *Furidashi tegata*, equivalent to convertible bank notes issued by an exchange house to its customers in the form of loan or overdraft and in place of specie.

3. *Kara tegata*, corresponding to a clean bill issued by a small

exchange house against a big exchange house in the form of overdraft, etc.

4. *Otegata* (*tegata*), or big bills by name, resembling bills or notes in modern usage. When merchant A was a creditor of B and in his turn was a debtor of C, then on the presumption that B would pay at due date, A would issue an *Otegata tegata* to C settling his debt. C then sent the *tegata* in question to his exchange house which would discount it and pay the money to C.

5. *Yakusoku tegata*, identical with the modern promissory notes.

6. *Kura-Azukari tegata*, issued against different kinds of goods received. The most prevalent of these were for rice and sugar, called respectively rice bills and sugar bills. This class of *tegata* were similar to warehouse warrants nowadays. In the Japanese language *kura-Azukari* means "stored in the godown." So the exact meaning is a bill against goods stored in the godown. This kind of *tegata* had a time limit; for example, for sugar bills three years and three months.

In case a bill was dishonoured for any reason all the other members of the sugar association to which the defaulter belonged were made to assume full responsibility, hence the *tegata* was generally endorsed by the association. In case of natural calamity, such as fire, flood, theft or other accidents, the damage or loss was replaced by the warehouse itself.

The rice bills were generally issued by the warehouses belonging to the feudal lords and the stock was generally disposed of by tender.

The successful bidder had to pay a certain sum as deposit within three days and to settle the entire account within thirty or sixty days, according to arrangement.

Against fire, flood, theft, etc., the warehouse or godown took full responsibility and the damage or loss was replaced.

These bills commanded first-rate credit, which accounts for their free circulation.

The Government, realising the utility of *tegata*, accorded them special protection and privilege. For instance, lawsuits involving *tegata* were always given priority of hearing irrespective of court agenda; and judgment was promptly enforced. Any defaulter of *tegata*, such as a man refusing to honour his own bill without an acceptable reason, was liable to imprisonment in addition to a heavy fine.

In 1866, that is, two years before the fall of the Shogunate, the

Government, in pursuance of the promise given to foreign powers, opened Hyogo (Kobe) and Osaka for foreign trade; and in order to promote international commerce the Government urged about twenty wealthy merchants of Osaka to form a trading company after the Western model, to engage in foreign trade. Those who participated would be given the Samurai privilege of wearing two swords and using family names. Up to this time only the Daimyo and Samurai were entitled to have family names; the other classes, such as merchants, were denied this right, so many used the names of their shops as family names. Besides the Samurai privilege the Government went so far as to allow a hereditary pension of from 50 to 200 koku of rice a year. The capital of the company was to be considered as a loan to the State.

Enticed by the prospect, the company was formed in Osaka. Besides the usual business the company also acted as customs agent for the Government at the port. The Shogunate promised to refund the capital loaned by the merchants for the company, but could not fulfil its promise. The reason why so much inducement was given by the Government in order to form a simple commercial concern was, firstly, this company was to open up on a large scale foreign trade, the success of which at that time appeared doubtful; secondly, the company had to act as agent for the Government in collecting customs duties free of charge; thirdly, the company was to be a State enterprise; fourthly, public confidence in the Government had fallen to nearly zero.

In order to uphold its promise to pay off the capital of the company the Government issued paper money, or gold notes as it was called, through the said company—sheer fiat money.

This operation was not new, as the various feudal lords had already resorted to this method when they were in financial distress. The issue of inconvertible paper money, which had been stopped for over 500 years, since the time of Godaigo Tenno (1319-39), was resumed by the Tokugawa Shogunate.

The notes issued took the form of gold bills but were endorsed on the back by the seals of the merchants participating in the above company; therefore the full responsibility for these notes fell heavily on those merchants. However, the notes circulated for some time, but when it was known that the fall of the Shogunate was imminent, the Samurai, Daimyo and merchants promptly presented these notes for payment, which could not be repudiated by the merchants who had guaranteed the issue; with the result that the twenty-one merchants who formed the

company and who had already invested a joint sum of 100,000 ryo of gold, had to take in all the notes, which cost them another 100,000 ryo.

As was generally expected, the Shogunate collapsed of its own ineptitude and the Imperial Government succeeded to power, only to find itself without any resources to meet the necessary expenditures. The new Government again turned its attention to the wealthy merchants of Osaka to solicit their help and succour. Many traders were summoned, and the Government, in the sacred name of the Emperor, persuaded them to contribute to the empty treasury, and in return they were to enjoy various special privileges, such as had been already granted them by the defunct Shogunate.

Out of patriotism and reverence for their Emperor the merchants again complied, and a campaign was started by them for raising funds. No less than 5,000,000 ryo of gold came forth from the wealthy class in Osaka, Kyoto, and other cities in Western Japan.

Unfortunately a rebellion broke out in the North East. Admiral Takeaki Enomoto, the navy minister of the Tokugawa Shogunate, joined with General Keisuke Otori and, wishing to establish another Shogunate in Hokkaido, rose up in arms against the central authority. A battle was fought at Hakodate (1869) and the rebels were crushed, but it cost the Government all the gold obtained from Kwansai (western part). Again the Government appealed to the wealthy merchants for their support of a plan to issue inconvertible notes. But this time the merchants fought shy, having been bitten once by the Tokugawa régime with the gold notes. After much entreaty on the part of the Government agent, Mitsuoka Hachiro, they consented to support the Government's scheme on condition that they should take no responsibility and that the notes were to be gradually withdrawn in thirteen years. So the fiat money appeared again, being called the *Dajokwan Shikei* (paper note of the great administration office). On the back of every note was stamped the word Motojime (original control), which meant that eleven Osaka merchants endorsed the paper money, in other words were underwriters.

Evidently the financial credit of the Government was less than that of the eleven Osaka merchants, since endorsement was necessary to guarantee its circulation, although it was also backed by law.

The total issue was 48,000,000 ryo of gold.

As has been stated, through the Tokugawa period gold was

the standard metal in Yedo and silver in Osaka and the western parts. By the issue of Nanryo silver coins, the Shogunate had practically established double-standard currency. In 1868 the Imperial Government replaced the double system by the gold standard all over the country, but there was no gold in the Treasury, so the gold standard did not work.

One of the principal reasons which caused the Government to discard the silver standard was that the Government paper money clashed with the *tegata* of the exchange merchants, who controlled the situation. To dispose of these dangerous rivals the Government abolished the silver standard and upheld the gold standard, so the *tegata*, all based on silver, the standard money in the western parts, followed the fate of silver, which was relegated to the rank of an ordinary commodity. In due course the *tegata* disappeared from the scene.

It may look as though the Government was selfish, but under the stress of circumstances there was no alternative. Entertaining no malice against the exchange merchants the Government made known that it would lend to the merchants who had suffered from the cessation of *tegata* a large sum of Government paper money without interest. The merchants were very glad; but, owing to the red tape formalities before a loan could be obtained, the merchants found no redress, so they had to close down their exchange houses. Thus the exchange institutions which had brought great wealth and riches to the people of Osaka were forced to retire, causing great inconvenience to the money market. The Government, with a view to saving the business, convoked the rich merchants again in 1869 and urged them to form an exchange company with themselves as directors; and by paying a certain sum of money as deposit they would be allowed to issue gold bills instead of silver *tegata*. Accordingly the company was launched and other exchange merchants formed themselves into trade associations, each of which, after paying the required deposit with the exchange company, was granted a certain amount of credit, usually twice the deposit, under the joint obligations of the merchant members.

By issuing gold notes and making loans to associations of merchants instead of to individual traders, the exchange company performed a function similar to that of the present Bank of Japan.

It is said that the exchange company was modelled after the Bank of England.

During the latter part of the Tokugawa Shogunate there was

perceptible progress in foreign trade, and the Imperial Government gave it further impetus. Through the channels of commerce many kinds of foreign silver coins came in, which complicated the ratio between gold and silver.

Yogin was the Japanese word for these foreign coins. At first the name was given to Mexican dollars, but later it covered every kind of foreign money, even the United States silver dollars issued for oriental trade.

In the beginning the exchange of *Yogin* was insignificant, but it multiplied along with the large increase of foreign trade, until afterwards it became an important line of speculative business, especially when the Shogunate adopted the double-standard system.

To facilitate the exchange of *Yogin* the Ministry of Commerce of the Imperial Government recommended the merchants of Kobe and Yokohama to establish a *Yogin* exchange where quotations could be made public from time to time. But the traders of these two ports possessed only courage and no knowledge of trade, so the Osaka merchants had to be invited to organise the *Yogin* exchange house.

By that time most of the exchange houses in Osaka had given up their business, and an exchange company was established in their place.

From 1873 onwards the Imperial Government with the help of Western knowledge devoted its whole attention to such affairs as would prove beneficial to trade and industry. After the Government had promulgated the Banking Act (see later chapters) the notable history of the exchange house came to a close and from its ashes rose the modern banking institutions.

PART III
BANKING

CHAPTER VIII

Historical Survey of Japan's Banking System

ALTHOUGH currency and banking are dealt with separately in this book, each on its own merits, the attention of the reader should be drawn to the fact that truly speaking it is impossible to dissociate one from the other.

Banking institutions may be compared with river banks, and money with the water which flows between them. If the river is large, the current is slow, and if it is narrow and sinuous the water sings and dances on its way to the outlet. The river-bed through which currency flows is trade—or exchange in the economic sense—which is another word for transactions between human beings in any part of the world based upon a certain medium as standard. Banking and currency are therefore indispensable elements of trade, however rudimentary it may be. It would be dull and dry if we should go into the general history of banking, as such a subject is universally treated by classical authors. It would also be useless to go to great length into the history of banking in Japan in ancient times, as its essential points have already been discussed in the preceding chapters.

In the period prior to the Restoration, however elementary banking may have been in this country, sales and purchases had already been financed by financial institutions, by whatever name they were called. Although credit in the real sense of the word did not exist, there had been means by which immediate payments for purchases were made. Silver and gold were not altogether necessary for the carrying on of business. We have witnessed the use of *tegata*, which correspond to drafts and bills and were so prevalent that a comparatively large volume of trade was being transacted with very little use of money indeed. However, the reader should be guarded against any inference that the system of internal trade in Japan by means of *tegata* was as economical in the use of money as the system of

credit carried on with the aid of modern banking. Nevertheless, it shows that the rudiments of the credit machinery for minimising the use of money had been existent in this country for a long time. How to develop or modify the existing system in order that the best results might be attained was certainly the first consideration of the Government of the Restoration.

Although a bank is a " temple of credit " it is not to be taken, of course, that the purpose of banks is just to minimise the use of money, because the real objective of banks is to facilitate trade or exchange of commodities rather than to multiply the use of money by means of credit. Credit is only a means to that objective and is made to function by banks ; hence we see that the more advanced the system of banking, the more goods are exchanged without actual use of money. Moreover, the quantity of money which passes from hand to hand has always been a small fraction of the total value of trade. *Prima facie* money seems to be of secondary importance so far as trade is concerned, but in reality it is of the first importance as it is the basis of the credit system. Strictly speaking money is only an accepted measure of a particular country of the value of commodities as conceived by man ; therefore the moment a measure no longer acts as a standard, that measure loses its value as money. For instance, the possession of any amount of precious metals is no use if those metals have no purchasing value. The more money can buy, the greater is the value of money. The money of Japan prior to the Restoration, and even as late as the first decade of the Imperial régime, had lost much of its value as money and as a measure, until the use of it was limited almost to paying taxes.

Not only commodity, but money also, must have a measure by means of which it can be appraised and exchanged, at least in a particular place. The measure of commodities, such as a koku of rice, bales of cotton, momme of silver and gold, may not be the same in every country, but for the sake of convenience and facility for national and international exchange those measures should be made uniform. Failing that, a fixed ratio should be established between the measure of one country and that of another. Unfortunately the measure of money called standard is not identical in all countries; for that reason attempts are being made periodically to establish a sort of fixed ratio between the standard of one country and that of another. The value of money is not only what it procures in a certain country but also in other parts of the world. Naturally, therefore, allowing for the necessities of local conditions the differences should be

minimised as much as possible. But the value of one kind of money in countries other than its own depends on its value in the country of its birth. The purchasing power of money in its own country determines the parity of the purchasing power of that money in other countries. If the money in any particular country loses most of its purchasing power, as the money of Japan did before the Restoration, the purchasing power parity of that money in relation to the money of other countries becomes proportionally decreased, with the result that the balance of indebtedness goes against that country. Japan was in this position in the early part of the Meiji era.

In trade and commerce money acts as the basis of transactions ; whether it loses its purchasing power or not, it still acts as a measure of value, but its usefulness is much diminished when it depreciates. The first and foremost task of any Government with a depreciated currency is to reorganise its monetary system, so as to bring the value of its money to normal level. But as money and banking are so interrelated, to organise a money system means also to organise a system of banking.

Commodities have to be put up for exchange through the medium of merchants ; and it is exactly the same with money, which has to be put in circulation through the medium of bankers. The Imperial Government was consequently confronted with a double task, that of money and that of banking.

Between currency and banking it is hard to say which should precede the other, for the best system of currency under a bad system of banking would be useless. Similarly the best banking methods would prove of no practical value under a chaotic state of currency. The two seem to be involved in a vicious circle. In Japan at that period banking was unsatisfactory because currency was in a state of chaos, and currency was chaotic because banking was far from what it should have been.

The reader has seen the condition of currency in ancient Japan in the preceding chapters, so we will now look into the state of banking in the various phases other than those already discussed.

We are aware that when a Government comes to monopolise the issue of money it is through the banks that the money is sent out to the people and received from the people by the Government. But when society is still primitive or under some distorted type of government, the Administration itself performs the function of banks. So long as the people are self-sufficient and have no intercourse with other peoples, or such intercourse is done by way of the Government, money has very

little to do, and what it does can be done by the Government. This situation applies to Japan at the early part of the Tokugawa period. But when commerce extends and when the interchange of commodities augments, money plays a significant part, and still more so when one place desires more of the commodities for which it has no goods to give in return. At this stage the use of money is indispensable to increase the value of business. Bagehot rightly described money as economical power.

Mr. Wagel analysed banking as originating from the need of a third party who would perform the duty of guarantor.

The merchants who buy and sell are desirous of having an intermediary who has no direct interest in the business, who will settle the account for them. Through this simple role of go-between the intermediary, by force of duty and by greed for gain, invents some means of a multiple use of money, which we call credit, in order to aid his operations and to enlarge the scope of his business as well as that of his customers. In other words the function of intermediary is not only to bring about economy in the use of money and to save time and trouble, but also to extend the purchasing power of the persons who hire his services. As soon as the connection between merchants and intermediary becomes so close that the former leave their balances in the hands of the latter to save themselves the trouble of paying or receiving—the process of which is to be undertaken by the intermediary out of the balances standing to their credit—then the intermediary becomes, for all practical purposes, a bank. Such was the development of banking business in Japan.

Apart from the above functions a bank accords advantages to trade in various ways. When a bank is sufficiently sound, so that many customers entrust their money to its custody, the bank uses that money by making loans and advances to various people, the amount of which is not limited to the total of its deposits. As a matter of fact it makes loans and advances to any extent it likes, provided, of course, that it shall be able to meet all claims at the appointed periods. In order to extend the amount of its loans and advances, the interest on which is its mainstay, the bank devises means of throwing out money substitute in the form of notes, and only at this stage do deposits become important. The bank then transforms itself into a full-fledged deposit bank. " Paper issue," says Bagehot, " is the natural prelude to deposit banking."

Hence we see that the banking houses in old Japan mostly issued their own paper money.

Thus capital is concentrated in the hands of the banks, which utilise it for their own benefit. The result of their operations is the expansion of trade and commerce.

By serving as clearing-houses for their customers, whose accounts are set off against each other without money having to pass from hand to hand, the banks come to economise money by effecting considerable transactions without its use.

This is, of course, possible only when the banks are free to act strictly according to the dictates of their own interest, but local political conditions may affect the position in such a manner as to make the banks err in their conduct, such as in granting too much or too little credit. Japan found itself in this position during the early part of the Meiji era.

Although the Government was fully aware of the functions of banks and wished to utilise their services, yet it was unable to do so because the Government currency was not stable. It is only in countries where there is a stable and well-regulated currency that the banks are the sole medium through which the currency passes from the Government to the people. It is only when the banks have reached the stage of being public institutions, where people deposit their savings and whence they draw money, that the banks form the link between the Administration and the public in every transaction involving money. Mr. Wagel says that, even in the case when a Government issues coins and paper money itself and the people can directly obtain whatever they want from the Treasury, yet both the Government and the people find dealing through the banks much more convenient. Thus there is naturally a very close connection between the currency and the banking system of a country.

When the Imperial Government was forced by prevailing conditions to reform its currency during the early part of its reign, the Government did not lose sight of the banking system, which also required reorganisation. But the Tokugawa Government had ignored the banking system altogether, therefore its repeated attempts to stabilise currency proved abortive.

The only conclusion that the Imperial Government could arrive at was the need for the reformation of currency and banking.

The reader has been given an account of the system of banking as it prevailed in Japan before the Restoration. Anyone who has the slightest notion of the progress of past events in this country in the sphere of politics as well as economics would have no hesitation in concluding that there is not much in the methods of ancient banking which can apply to modern

organisation. One salient point in the position of banking in Old Japan is that there was no control at any time in its history by the Administration. The reason was simply that the Government was incapable of exercising control, owing to lack of funds. Attempts towards financial control by law proved futile. Even when the Government issued inconvertible notes without any backing of reserve, it did not worry itself with banking institutions, as the notes had the backing of law which laid the obligation on its citizens to accept the State paper money at its full nominal value.

From ancient times banks in Japan performed the double purpose of acting as go-between for merchants and of saving time, trouble and money; there is, however, an essential difference between their way and that of European banks. In Europe the saving of money was facilitated by the growth of a system of credit, whereas in Japan there never was the use of credit in the modern sense of the word, though there always was an extraordinary amount of personal trust. Business in this country was based on individual credit.

Another point worthy of note is that up to recently banking in Japan was not a public institution in the real sense. Private banking was entirely a mechanism for the furtherance of particular trade or industry. The banks were proprietary institutions and dependent on a few traders, thus they frequently got themselves drawn into the vortex of doubtful transactions.

Far from acting as the medium of circulation of money between the Government and the public, the ancient banks of Japan did not even recognise the Government currency. The reason may be partly that they were not called upon to do so, and partly that the Government had no money to put into circulation except paper, which depreciated as soon as it was issued.

The question before the Imperial Government resolved itself into how to make the banks public institutions. So long as the banks continued to be proprietary and refrained from issuing paper money, as the private banks were doing in the beginning of the Meiji era, it was generally considered that the Government had no right to intervene.

But this old economic doctrine that " banking is a trade and only a trade " could not be accepted under existing circumstances. We shall see, then, how the Japanese Government surmounted this difficulty.

It should be recalled and emphasised that the development

of the money economics of Japan took as its elements the social and political as well as economic forces; therefore the old banking system of the country was the outcome of social and political as well as economic evolution.

In all cases the banking system of a country is like a mirror which reflects the entire economic structure of a country and also its financial policy. A country with an autocratic outlook, where the people pin their faith on the greatness of a few, is inclined to organise its finances differently from a democratic country, which lays great stress on the importance of the people's force and ability. Japan in the Meiji era may be classed as half-way between the two categories. Nevertheless, a country's need for a healthy finance to sustain the gigantic burden of taxation obliges the authorities to depart from their individualistic object and to make their plan adaptable to the requirements of the people in so far as those requirements do not clash with the absolute authority of the State.

An agricultural country rich in soil and mineral resources whose inhabitants consist of farmers and peasants requires a different banking system from that of an industrial country like Japan, poorer in natural wealth and densely populated.

Moreover, it is indeed not only the amount of the country's wealth which determines its financial policy, but to a great extent the way that wealth is distributed.

Another factor which also affects the financial system of a nation is the period in the world's civilisation in which a nation first begins to utilise its resources and to benefit by international exchange.

There are two prerequisites for the establishment of a banking system. First, the money economics of a country must reach a stage when credit has to be manufactured; in other words, when the use of coined money becomes so prevalent that the need is felt for some form of money substitutes. Secondly, trade—both home and foreign—must develop to such a degree that exchange becomes as important as production and consumption. The most important of these two essentials is exchange, which affects more than anything else the financial development of a country.

Japan in the Tokugawa period found the second prerequisite more or less lacking, as it was only at the end of that era that foreign trade became liberated and increased freely to a considerable extent.

It must be borne in mind that Japan entered the arena of modern industrialism when countries in Europe and America

were already so greatly in advance of her in trade and industry that their knowledge and experience constituted a sound and solid basis. Japan, on the contrary, was fresh in both and had to compete with others much better equipped than herself. Not only did she have to reorganise her existing economic conditions to meet modern needs, but she had to adopt and adapt foreign systems which were unrelated to her own. In order to be able to play her part Japan was obliged to study and to compare the various foreign systems, even at the time when she was hardly competent to judge.

Happily, the Government assumed the lead and took unto itself the task of initiating its people in both finance and industries. To play the leading part the Government had to make a profound and comparative study of the foreign systems prevailing at that time and to make the people adopt what the Government thought was the best, as there did not exist then a mercantile community possessing enough knowledge and ability to take the necessary steps. Thus the country had to rely entirely on the Government officials who formed the élite of the land, who had studied foreign systems, and who alone had the power and authority to create.

It might be argued that Japan had one great advantage in the presence of various systems around her—she was able to pick and choose ; but this is an illusion when one has neither knowledge nor experience to make the choice. However, Japan made the best of her limited assets and made full use of her men. Even so, past experience shows that her success has been achieved after great sacrifice and not without blunders and tribulation.

For a new country on the threshold of transition the most formidable obstacles lie in the conservative tendency and in human inertia. Much time is lost in weighing the pros and cons of a new policy, and the spirit of clinging to the known and shrinking from the unknown puts a curb on all progress. The better is always the enemy of the good. Nevertheless, Japan proved herself equal to the task. She did not seek the better, she was content with the good ; hence the success of her career.

Nothing is perfect ; if a policy does not work, the mistake will show what may make it work ; without trial no imagination, however penetrating, can tell what is wrong. Armed with this maxim Japan launched herself heart and soul on the perilous sea of modernism.

A banking system of the Western type, designed to foster

economic development on Western lines, with a view to increasing the country's wealth and so raising political prestige: this was the objective in view. As the country's industry and commerce were on the move it was necessary for the Government to keep a close watch in all directions in order to enable it to apply a remedy in time of need—a process which necessitated a strict supervision of all financial machinery.

The old economic doctrine that " banking is a trade and only a trade " was discarded. The justification for the Government's interference in the banking business rests on the theory that banking is a quasi-public or public service.

A bank is the axle around which the wheel of business revolves. It is safe to say that no business in any country can be carried on without banking connections. " The banker is the modern entrepreneur who determines in a large measure the course business shall take."

Since a modern bank is so intimately related to all forms of economic activity, and, by extending and withdrawing credit, controls the power to direct the course and progress of industry, it is of paramount importance for the Government to supervise these institutions and see that their great power is not abused. If banks are organised, like other businesses, by private individuals for the sole purpose of making a profit, it is conceivable that in a given instance the policy which ensures a maximum profit to the bankers may not promote the general welfare. It is also possible and probable that a particular group or groups of individuals might secure control of the powerful financial machinery provided by banks, and use it for their own selfish purposes. Hence one of the aims of bank regulation is to prevent the improper use of this financial machinery.

Another reason for the control of the banking business, whether State or private, is safety. Mr. Langston, himself a prominent banker, affirms that bankers occupy a position of great trust. Millions of people throughout the country entrust a large portion of their wealth to the care and custody of banks, hence not only as a matter of justice but also as a wise social policy banks should be subject to such control as will protect the savings entrusted to them.

" A bank failure not only exercises a restraining and blighting influence on the economic life of a community for years after its occurrence, but causes a distrust which spreads quickly and is liable to merge into a general failure of all the banks."—(Langston.) And he continues that persons who occupy positions of trust are not always absolutely honest and uniformly

wise. To the customers of a bank that has failed honest mistakes are just as ruinous as wilful dishonesty. The principal reason, then, for State supervision of the banking business is only to ensure its honest and reasonably efficient conduct and to act as a deterrent to unsound business.

The above reasons were not, however, so lucid in the nineteenth century, when the liberal doctrine of *laissez faire* still held sway. Yet the Government of Japan, owing to its political requirements, preferred State intervention to *laissez faire* policy and made itself accordingly the entrepreneur.

In the early part of the Meiji era the work of supervision was not so pressing for the Government as the work of creation, as there did not then exist any modern banking institutions in Japan, with the exception of a few foreign banks.

Under the circumstances it is not astonishing that Japan's banking business was originally the creation of the State, not of private individuals.

Official institutions had been playing a primary part in the financial system of this country, and by virtue of the model set by the Government and of the consequent expansion of banking business there arose out of the merchant class private bankers who had gained enough experience and capability in conducting their business for their individual gain. Private banks cropped up as a sequence to the official institutions, providing great stimulus to trade and industry.

These ordinary banks have become increasingly powerful since the Great War and now are playing a preponderant rôle in the finance of the country, even eclipsing the official banks.

It may be useful to follow the line of exposition laid down by Mr. A. C. Allan in explaining and criticising the banking system of Japan.

Mr. Allan divides the banking history of Japan into three periods. The first period served as the experimental stage, which dates from the time of the Restoration (1868) to 1882—the age of national banks. The second period sees the foundation of the present banking system (1882-1900)—the era of the central bank. The third period, which stretches from 1900 to the present time, witnesses the performance of the financial machinery marking the ascendancy of the ordinary banks—the reign of the ordinary banks.

We shall now proceed to examine the different periods of the system, commencing from the experimental stage and continuing up to the present time.

As has already been shown, the monetary system of the

Tokugawa régime was in a chaotic state, causing an alarming shortage of liquid funds. All the fabric of business credit was destroyed by the abolition of the guilds which had previously regulated various trades and industries. The Imperial Administration which succeeded the Tokugawa Government inherited also all the financial ills in the form of depression of trade and the "tightness" of loanable capital. The grave situation was aggravated by the successive civil wars which obliged the Government to borrow heavily by issuing inconvertible paper money. The currency depreciated more and more, causing a rapid rise of the price level.

Under the circumstances a sound banking system with a clear-cut policy coupled with the adjustment of currency was essential to the solidity of the State.

In 1870 Prince Hirobumi Ito, then an official of the Ministry of Finance and a man near the Throne, was sent to study the governmental structure as well as the financial system of the United States. At that time the American Civil War had just ended and the Government of that country was directing its efforts towards liquidating the "greenbacks." Evidently impressed by the American method, Prince Ito suggested to his Emperor to take the American model of national banks so as to stem the tide of inconvertible notes.

The result was the promulgation of the National Bank Act in this country in November 1872.

In spite of its failure this National Bank Act can be called the foundation stone of the Japanese banking system.

Opposing views on the part of other far-sighted statesmen were rife. They argued that the American system had not stood the test, being in existence only a short time; hence it should not be adopted. They preferred the English system of one central bank. But the Government took no heed of their advice and went on with its National Bank Act, which resulted in a complete collapse.

In deciding upon the system of national banks instead of a single central institution after the European pattern, the Government had, however, carefully studied the merits and defects of both systems so far as information and data were available then. At that time the idea of plural reserves seemed to be more popular in Europe than the single reserve system. Subsequent evidence of the tendency lies in Bagehot's *Lombard Street*. Bagehot himself favoured the plural reserve system. He ably analysed the weak points of the Bank of England and brought to light the tremendous risk and danger which hung

over the country because of the one reserve system. Owing to the fact that the finance of the whole British Empire hinged on one single organisation, and that the Bank of England, if this institution should fail—and it was many times on the danger line until foreign central banks had to come to its rescue—the whole financial structure of the Empire where the sun never sets would collapse like a house of cards.

"A monarchy in any trade is a sign of some anomalous advantage, and some intervention from without," he asserted. However, he did not suggest a plural reserve system for England, not because he had no faith in it but because of the mentality of the English people; and that is why he says, "Queen Victoria is loyally obeyed—without doubt, and without reasoning—by millions of human beings. If these millions began to argue, it would not be easy to persuade them to obey Queen Victoria or anything else. . . . Just so an immense system of credit, founded on the Bank of England as its pivot and its basis, now exists. . . . The whole rests on an instinctive confidence generated by use and years. Nothing would persuade the English people to abolish the Bank of England"; and he concluded, "'Banking is a trade and only a trade.' But the Government forgot that doctrine when, by privileges and monopolies, it made a single bank predominant over all the others and established the one reserve system."

Under the opinion prevailing at that time it is not astonishing that Japan adopted the system of plural reserves, i.e. the national bank system. The Government of Japan was neither a saint nor a devil, hence a plural reserves system based upon many national banks appeared to the authorities to be the best.

A decade later, experience demonstrated the truth that the supporters of a single central bank were right after all. If the far-sighted gentlemen who favoured a central bank had lived to see the collapse of the American system in 1932, when no less than tens of thousands of banks were closed in the United States, they would have been proud of their foresight. However, no Government at that time could foresee the defects of the system until it was tried, and the Japanese Government was not an exception. In order to meet the situation quickly the Government had to choose at once between the American and the English system. It happened that the American system was adopted.

After the sad experience of the national banks the Government turned to the European system of single reserve based upon a strong central institution called the Bank of Japan.

Following the establishment of the central bank the Government also took steps to initiate special banks for long-term loans, and so the Hypothec Bank and the Industrial Bank of Japan came into being. For short-term loans the Government encouraged the private banks and issued a banking law to govern them. Thanks to the Government's initiative the gradual formation of a strong banking method has been effected in this country, and banking activities extended into all commercial spheres, causing great expansion of the country's trade and industry. Today there exists a complete system of banking, as the tables on pages 110-11 will show.

The present financial institutions of Japan may be classified into two major groups, namely banks and other than banks. The latter consist of four kinds, i.e. the Deposit Bureau of the Treasury, trust companies, credit associations, and the "Mujins" or mutual loan companies.

By the Banking Act of 1890 the use of the word bank in a trade name is made compulsory for every institution performing a regular banking business, but forbidden to those financial institutions other than banks.

The first group may be subdivided into three categories: (1) special banks, including the Bank of Japan; (2) ordinary banks, extending to commercial banks and exchange banks; and (3) savings banks.

The special banks are incorporated under the special banking laws, having objects and functions of their own. They exercise their full charter and statutory rights as semi-official institutions and at the same time are subject to strict official supervision and a limited scope of activities. They are the Bank of Japan, the Yokohama Specie Bank, the Hypothec Bank of Japan, the Industrial Bank of Japan, the local Agricultural and Industrial Banks—of which there are seventeen—the Hokkaido Colonial Bank, the Bank of Taiwan (Formosa), and the Bank of Chosen (Korea).

The ordinary banks are governed by the Banking Act and the savings banks by the Savings Bank Act.

The business activities of the various banks and other financial institutions are indicated by the statement of accounts given in Table A, which also shows the current market prices (1935) of shares and stocks of the special banks and the rates of dividends declared.

In accordance with the accepted view that the operations of a bank are fully indicated in the balance sheet, a comparative study of the business activities of the various financial

A. PRINCIPAL ACCOUNTS OF DIFFERENT FINANCIAL INSTITUTIONS

In thousands of yen

	Number of Banks, etc.	Capital (December 1934)		Reserve Funds (Dec. 1933)	Net Worth (Paid-up Capital & Reserve funds)	Share Value (Market Price) (Calculated as Y50 face value) (Nov. 20, 1935)	Dividends (First half year 1935)
		Authorised	Paid-up				
							Per cent.
Bank of Japan	1	60,000	45,000	110,140	155,140	140	10
Yokohama Specie Bank	1	100,000	100,000	124,852	224,852	106	10
Hypothec Bank of Japan	1	111,775	87,651	79,123	166,774	90	10
Industrial Bank of Japan	1	50,000	50,000	24,415	74,415	53	6
Hokkaido Colonisation Bank	1	20,000	12,500	13,485	25,985	55	7
Bank of Taiwan	1	15,000	13,125	2,354	15,479	46	3
Agricultural and Industrial Banks	17	84,500	77,250	68,824	146,074	—	—
Bank of Chosen	1	40,000	25,000	5,301	30,301	39	4
Chosen Agricultural and Industrial Bank ...	1	30,000	20,000	11,203	31,203	71	9
Total	25	511,275	430,526	439,697	870,223		
Ordinary Banks	491	1,834,147	1,175,911	518,713	1,694,625		
Savings Banks	80	95,395	49,605	43,280	92,885		
Branches of Foreign Banks	15	—	—	146	146		
Grand Total	611	2,440,817	1,656,042	1,001,837	2,657,879		
Deposit Bureau of the Treasury	—	—	—	348,641	348,641		
Trust Deposits of Trust Companies	36	287,000	82,076	29,536	111,612		
Credit Societies	11,290	—	—	—	—		
Mujin	276	38,325	18,581	9,554	28,135		

B. PRINCIPAL ACCOUNTS OF DIFFERENT FINANCIAL INSTITUTIONS

(December 1933) In million yen

	Net Worth	Bank Notes	Debenture	Deposits	Borrowings	Loans	Investments	Total Resources (liabilities)	Percentage
									Per cent.
Bank of Japan	155	1,544	—	370	—	880	682	2,225	8
Yokohama Specie Bank	224	4	358	558	590	368	460	1,537	6
Hypothec Bank of Japan	166	—	931	145	4	1,094	77	1,354	5
Industrial Bank of Japan	74	323	323	59	—	408	87	553	2
Hokkaido Colonisation Bank	25	—	122	89	—	217	7	254	1
Bank of Taiwan	15	48	—	101	175	227	90	424	1
Agricultural and Industrial Banks ...	146	—	496	162	3	672	65	869	3
Bank of Chosen	30	148	—	215	228	402	136	717	3
Chosen Agricultural and Industrial Bank ...	31	—	253	82	22	341	23	414	1
Total	870	1,746	2,128	1,784	1,023	4,613	1,830	8,349	30
Ordinary Banks	1,694	—	—	8,893	696	6,604	3,333	15,776	58
Savings Banks	92	—	—	1,851	—	356	1,341	3,123	11
Branches of Foreign Banks	—	—	—	53	9	27	2	174	1
Grand Total	2,657	1,746	2,128	12,582	1,728	11,602	6,307	27,423	100
Deposit Bureau of the Treasury	348	—	—	3,373	—	530	3,085	3,862	14
Trust Deposits of Trust Companies ...	111	—	—	1,378	—	898	421	1,378	5
Credit Societies	—	—	—	1,063	—	1,017	—	—	—
Mujin	28	—	—	643	3	586	4	—	—

institutions of Japan can best be made on the basis of the total assets—which correspond of course to the total liabilities—given in the balance sheets of the respective institutions.

The volume of operations of the different institutions entitled banks is given in percentages in Table B. It may be noted that the ordinary banks occupy the first rank among all the banking institutions with their combined ratio of 58 per cent., while the special banks come second with 30 per cent., and the savings banks third with 11 per cent. This fact reveals the predominant part played by the ordinary banks in the banking business of the country. With regard to other financial institutions, if we take the combined activity of the banking institutions as 100, that of the Deposit Bureau of the Treasury stands at 14, while that of the trust companies 5. The statements of accounts of the credit associations and the " Mujins " are not available.

The foregoing comparison of the volume of operations of all the banking institutions is made on the basis of the total assets, but a closer analysis demonstrates a difference from the figures given in Table B. This is due to the fact that the objects and functions of these different institutions are divergent according to their types. They differ in the kinds of transactions dealt with and in the methods employed; for instance, some work on short-term loans and some on long-term. In other words, some finance over space and time payments arising with industrial and trading operations, and some deal in agricultural financing and real estate mortgages and corporation bonds. Thus the rate of capital turnover differs radically. Should due consideration be given to this side of the question, it will be found that the percentage of the volume of activity for the ordinary banks is larger than that given in Table B, i.e. it reaches more than 58 per cent.

It would be desirable to discuss separately the activities of different types of banks in Japan; but the banking functions themselves are so interrelated that it is impossible to complete the discussion of one without being involved in the discussion of the functions of another, as there is much unavoidable overlapping. However, this will be ignored in the following chapters, owing to an attempt to make clear the nature of different banks and also their importance, so far as it is possible.

Regarding objects and functions of these banks it may be said that the Yokohama Specie Bank finances commerce, whereas ordinary banks do mostly domestic trade. The Industrial Bank finances industries, and the Hypothec Bank

operates on a large scale, whereas Agricultural Banks provide, on a small scale, financial facilities in rural areas.

Again, in theory, and in theory only, the functions of different classes of banks are distinct in their sphere of business. Therefore for the purpose of analysis banking functions may be separated; but in actual practice the tendency is for a single institution to assume all the functions—"the department store method of banking." For instance, we find that the ordinary banks of Japan—originally designed as commercial banks—used to operate savings departments and carry on the work normally performed by trust companies, while the latter also conducted both savings and commercial business, until finally the Government stepped in and defined by law the spheres of different banks and other financial institutions, thereby limiting their activities. Even so, there still exists a great amount of overlapping, consequently there has been a movement on foot for the amalgamation of some of the banks whose business is of similar nature, such as the Industrial Bank and the Hypothec Bank.

However, the financial panic in Japan of 1927 and the world-wide depression since 1929 have given a new aspect to trade and commerce, so much so that each bank is busy enough with its proper function. To cite an example, the Industrial Bank and the Hypothec Bank, both engaging in real estate mortgage loans, often came into conflict with each other in their operations, but ever since 1929 the former has become busily engaged in relief loans to industrial companies and subsequently in helping the industrial corporations to convert their loans into low-rate debentures of which the bank serves as underwriter. At the same time the Hypothec Bank is busy in advancing relief loans to the agrarian districts and in assisting them to adjust old debts. The scope of activity of each bank is thus enlarged until overlapping has been reduced to a minimum.

In fact the economic changes in Japan of recent years, with the gigantic stride in commerce and industry, have produced a new situation, until banking institutions of different kinds have no longer any surplus power to trespass upon any other's field; but the merging of the banks of the same type, such as the Agricultural and Industrial Banks and the Hypothec Bank, is still in process. The evolution of the banking business in this country, as elsewhere, is by no means completed. New functions are continually being introduced and the emphasis on old forms of business is continually changing, hence changes in the existing laws and statutes must go on.

CHAPTER IX

NATIONAL BANKS

BEFORE the establishment of the national banks (1872) the right of issue of both metallic and paper money in circulation rested entirely with the Government.

In ancient times the issue of both currencies was made by the central and local governments, as well as by private institutions, causing so much damage to the nation that the central Administration took up the issuing business itself. Nevertheless the situation did not improve.

The question which Japan had to solve first was in connection with the inconvertible paper money which increasingly threatened the solvency of the State. The Government manifested its fixed determination to suppress this dangerous octopus of unlimited issue. At that time not only Japan but many countries were undergoing the same ordeal, and the bitter experience of this country simply exemplifies the past experience of England and France.

Leroy-Beaulieu says that one of the important phenomena of 1879 in Europe and America (and, we can add, also in Asia even before that time) was the chaos caused by the inconvertible paper money. Almost all countries, big and small, were victims of the process of excessive issue, chiefly Italy, Spain, Austria, Russia, Brazil, Argentine, Chili, even England and France. "Inflation is not the same as debasement or falsification of coinage as practised in ancient times, as debased coins do no harm to good money already existent. But every issue of inconvertible notes reduces the value of previous issues."—(Leroy-Beaulieu.)

If we take into consideration the origin of paper money and the aim with which it is circulated, the inconvertible notes cannot be condemned unless the issue is carried too far. But in almost all cases the tendency is towards over-spread and Japan was one of its numerous victims.

Paper money was first originated by a banking institution. Courcelle-Seneuil frankly admits that it is difficult to determine who was the originator and when paper money came into use ; however, it was first employed as a promise to pay on demand metallic money equal to the nominal value of the note. Afterwards there appeared the fiduciary issue, or note of confidence, which was not covered by metallic reserve, and whoever took the note was confident that the house of emission would give him silver or gold without fail.

The fiduciary issue is absolutely necessary for banking operations and for the development of trade and commerce, without which national economics cannot grow. Macleod pointed out : " No bank conducted on this principle (currency principle, which means a 100 per cent. cover of the paper issue) ever did, or by any possibility could do, banking business." Again he said : " The currency principle was no protection whatever against a monetary crisis."

During the nineteenth century there arose a great controversy on the merits and defects of the fiduciary money ; and the contemporary economists, financiers and politicians were divided in their opinions. Some pinned their faith on the restrictive theory, i.e. adhering to the currency principle, and some on expansive theory, i.e. in direct violation of it. To the latter group belonged Macleod, and when he wrote his *Theory and Practice of Banking* he sealed the doom of the currency principle.

The fiduciary issue within a reasonable limit is a panacea for all ills pertaining to trade, but if it exceeds that limit it is the mother of mischief and can create universal ruin. That limit lies in the doctrine of Ricardo : " The issuers of paper money should regulate their issues solely by the price of bullion and never by the quantity of their paper in circulation. The quantity can never be too great or too little, while it preserves the same value as the standard."

More practical still is the principle laid down by Mr. Bosanquet and quoted by Macleod : " That while a drain of specie was going on, their issues (fiduciary) should be contracted as much as possible ; but that, as soon as the tide began to give signs of ceasing to flow and turning the other way, it was then safe to extend their issues freely." This policy had saved the Bank of England many times in its troublous career.

Fiduciary currency, owing to the fact that it affords a rough and ready method of obtaining immediate resources, is adopted by many governments. When the volume of the issue

passes the limit of confidence it is made legal tender by law, thus depriving it of the power of convertibility. This is the reason why the French call it "*cours forcé*" (forced circulation).

The purpose of the issue is chiefly to avoid a financial crisis. As an expedient in time of war or invasion the governments generally resort to this mode of issue, which becomes a loan without interest compulsory to all citizens.

The issue is effected in two ways, either by the Treasury or by a bank or syndicate of banks. But whether it is a Government or bank issue the lenders remain anonymous and receive no interest. The bank or banks which issue the notes become nominal lenders and the people the real lenders, the banks receiving commission for functioning as intermediary between the Government and the public.

The legitimate reasons for issuing inconvertible money were defined by Leroy-Beaulieu as follows :

1. The need of immediate and considerable sums of money which cannot be procured within such a brief period by means of taxation or ordinary loan.

2. To obtain a loan without interest or with an interest much lower than the prevailing rate.

3. Metallic money becomes so scarce that a legal substitute is necessary.

It is only in special cases, such as in war, and only when the Government takes good care not to issue too much and keeps on building up the specie reserve for an ultimate redemption of these notes, that they are useful in staving off difficulty ; otherwise the notes always bring about disaster for the nation. Leroy-Beaulieu was of the opinion that a nation which issues inconvertible notes can be compared with an acrobat who practises a rope dance. The result is a fall or death.

The inconvertible notes will certainly diminish the volume of metallic currency. If the circulation is not swollen beyond the limit of confidence, serious consequence can be avoided. But in nearly every case the circulation is stimulated by speculations which extend beyond all due bounds, as trade and commerce become so brisk. The volume then tends to exceed the limit of public requirement, and the danger of excessive inflation thereby ensues. In other words, it is only when the notes invade a market which does not call for currency to such an extent that they end in disaster. To avoid this danger the volume of circulation should be less than the metallic money and the

duration of the issue should not be more than seven to fifteen years.

A point of the greatest importance to be noted in this connection is that, although the volume of circulation must determine whether the issue is excessive or not, yet the mere numerical amount of notes in circulation at any time is no criterion of over or under issue. Macleod strenuously maintains that " the sole test of depreciation of paper currency is to be found in the price of gold bullion and the state of the foreign exchanges." Again he affirmed that " the true criterion of the proper quantity of paper currency was not in its numerical amount, but the state of foreign exchanges and the market price of gold bullion. This doctrine was true so far as it went, but unfortunately they never investigated the correct method of keeping the paper currency in its proper state."

The depreciation of currency brought about by excessive issue generally takes a gradual course with frightful rapidity towards the end. In England it was 1 per cent. only at first after the Bank of England stopped specie payment in 1797, becoming more and more marked in later years. (In 1800 it was 10 per cent., 1809 14 per cent. to 20 per cent., 1812 25 per cent., and in 1813 25 per cent.) The reasons were :

1. The increase of circulation beyond the public needs.
2. Political insecurity.
3. Exportation of gold to maintain English armies overseas.

In France the assignats were originally not inconvertible notes but mortgage bonds bearing an interest of 5 per cent. Afterwards the interest was reduced to 3 per cent., and in 1790 it was entirely cancelled. From that year the issue was multiplied (in August 1790 new 400 million francs were issued ; in September of the same year another 800 million ; in June 1791 600 million, and in November another 300 million) ; hence the notes lost all the characteristics of interest-bearing bonds. Even so, in 1792, when the issue mounted up to 1,550 millions of francs, it was not yet too late to mend ; but the Government kept on swelling the amount. In October 1792 a new issue of 400 million was thrown out and in November another 600 million, and 300 million more in December ; in February 1793 another new issue of 800 million and in May of the same year 700 million, until 1 gold louis, which had been equal to 24 livres of assignats, represented 2,000, 2,500, 2,600 livres of assignats. The issue was further increased in the " Directoire " until it totalled

29,000 millions ; then the value depreciated to 1/250th part of the original (6,000 to 7,200 assignats to 1 gold louis). When it was found impossible to issue assignats any further, another kind of inconvertible money called " mandats territoriaux," secured by the Crown property, was manufactured. But six months later they were valueless. After France, Austria, Russia, then the South American countries and the United States all went through the same experience.

Some of these countries, such as France, England and the United States, could extricate themselves, but others were on the verge of collapse owing to the process, and some actually did collapse ; so it is a matter for gratification that Japan saved herself just in time.

Both convertible and inconvertible money had a long history behind them. The issue was either monopolised by a Government or undertaken by private organisation.

In China the Government had the sole monopoly of the issue, as in Japan, but with no enviable consequences. In India an adequate reserve was maintained both in gold and securities, and therefore the value of the paper currency did not depreciate. But Japan was placed in a different position ; her coffer was drained dry by the previous régime and also by civil wars. Under the circumstances Japan could not afford to provide an adequate specie reserve. In the South American States, such as Brazil and Argentine, there were no adequate reserves either, and most of the money was inconvertible, consequently exchange had always been a great problem.

The numerous historical documents and statistics available at that time seemed to prove that the inconvertible currency was liable to different results, because, until the twentieth century, the phenomena had not yet been brought under strictly scientific investigation so as to arrive at a clear-cut conclusion.

Japan had to avert the general failure which seemed imminent, for her trade and commerce were struggling under great difficulties. She had to adopt the system best suited to her needs.

But what system should be adopted ? Naturally she had to explore thoroughly the monetary and banking systems of the most up-to-date countries.

It should be stressed that while Japan was searching for a system best suited to her own conditions, she was really groping in the dark, as there did not exist any definite light elsewhere to indicate which system was the best.

The question of Government monopoly of paper issue had been a subject of controversy throughout the world of that period, and it had not yet arrived at a scientific demonstration. It was a matter of very serious doubt indeed whether a Government should monopolise the business or leave it in the hands of private organisation. There were examples of both systems.

To-day the question to be solved would present no difficulty. Evidently even in the most advanced countries the privilege of issuing paper money is not a boon to the people when it is the monopoly of the State. Siam is a case in point. In India the Treasury has at its back the whole resources of the British Empire; and even though it is possessed of proper means of maintaining and controlling the reserve, the system cannot be said to be a public benefit.

As shown previously, the Government of Japan at that time had neither the capacity nor the means to build up the reserve. Moreover, experience in the past with regard to paper money must have been a great deterrent to the Government's continuing to issue the notes. Obviously there was no alternative but that the right of issue should be given to a private bank or banks under State control.

Now, the same objections which apply to the Treasury's issuing notes would be valid in application to a single State bank, because any institution under complete control of the Government is even more dangerous than the Treasury itself. The Bank of Spain is a standing example of the possibility of the disastrous consequences brought about by the undue pressure of the Government on the bank of issue.

Leroy-Beaulieu pointed out that a country soon recovers from the effect of the errors committed by the private banks' excessive issue, which, if it occurs, does not sensibly affect the rate of exchange for long. On the other hand the errors of State banks or those closely connected with the State, committed on the instigation of, under the pressure and for the requirements of the Government, have a far greater and more lasting consequence. They throw the country into complete disorder for many years to follow. France provides an illustration. This country could scrape through the predicament simply because the issue was made by the bank and not by the Government.

When the Government of Japan decided on the private issue, another question arose incidentally as to whether there should be a specially constituted central bank, like those of England and France, or whether there should be several

issuing institutions as in the case of the United States and Canada.

When the Government finally adopted the system of national banks after the model of the United States, all the problems were at once liquidated in favour of private issues and plural reserves. The aim was that as banks of issue they might satisfactorily perform their functions, viz.:

1. To provide a medium of circulation of constant value in the handy form of bank notes or book credits, which would be easily transferable.

2. To place its funds, to be mainly drawn from the national wealth, at the disposal, as far as possible, of the community by advances in the forms of discount of bills and loans of money on the security of stocks and merchandise.

The Government wisely recognised the essentials and had no misapprehension about the fact that, whether there should be one bank of issue or several, the Government would be ultimately responsible for the issue and for the regulation of all kinds of currency. As the Government could not do banking itself, and as it was not advisable in the public interest that the Government should do banking, the question was, under what system the Government's supervision could be arranged so that the public could also benefit? The progress of the functions of banking, as Mr. Wagel rightly puts it, is dependent upon the prosperity of the people—essentially the prosperity of trade. Commerce involves, so far as banking is concerned, discounting bills, making loans and advances and all the operations of the banking business. The Government could not do all this, and no one institution directly connected with the Government in any manner could do all the business available in the country. In England the great majority of business was actually done by banks other than the Bank of England. As a matter of fact there were individual banks larger than the Bank of England, although the latter was the bulwark of all business, not only in the country but in the Empire. The Banks of France and Belgium and the Reichsbank occupied practically the same position.

There was no better method of arriving at a decision on the question of supervision and control than to compare conditions in Japan with those of other countries.

The Bank of England, which was advanced as a model by those who severely censured the national bank system, had nothing in its career—up to that time—to be proud of. Its

repeated failures were enough to cause the Government of Japan to turn away. " The Bank Act of 1844 has completely failed both in theory and practice."—(Macleod.)

Lack of means of communication enabling people to go from one place to another ; the fact that Japan was a debtor nation and there still remained currencies of various denominations to be systematised, etc. : all these reasons pointed to the conclusion that the system of the United States instead of England should be adopted. The former country was a debtor nation, had a considerable amount of outstanding inconvertible money —the Greenbacks. The national banks of the United States were conducting their affairs successfully so far, which seemed to Japan to be a most important example of the beneficial results ; hence the American system of supervision and control was embraced.

The history of the national banks in Japan may be divided into two periods, i.e. 1872-6 and 1876-83. The National Bank Act which governed the first period granted the privilege of note issue to the national banks established on the following conditions :

1. A bank of this kind was to be called a national bank.

The epithet " national " was borrowed from the United States where it was intended to indicate the difference between banks incorporated by Federal laws and the State banks incorporated by State laws. As all the national banks of Japan were under the national or State regulations, the word national had no meaning. Besides, the banks were not established with Government money either. The National Bank Act authorised persons in any part of the country to make application to the Government for permission to carry on a banking business under the terms granted by the Act. So the national banks in Japan meant simply commercial banks with the privilege of note issue.

2. The privileges granted by the Charter of National Banks according to the Act enabled a new bank

(a) to adopt and use a corporate seal ;
(b) to have a corporate life of . . . years.
(c) to make contracts ;
(d) to sue and be sued ;
(e) to elect and appoint directors and officers ;
(f) to adopt by-laws ;
(g) to exercise such incidental powers and functions as are necessary to carry on the banking business, which includes discounting promissory notes, drafts, bills of exchange and

other evidence of debt; receiving deposits; buying and selling exchange, coin and bullion; loaning money on security; obtaining and circulating notes, etc.

Under the provisions of the National Bank Act no national bank might be established with a smaller capital than 50,000 yen (in the United States the minimum capital stock was fixed at 25,000 dollars).

3. The bank thereby created had to deposit with the Government a sum in Government paper money equal to 60 per cent. of its capital stock, in exchange for which the Government would hand over Government interest-bearing bonds of equal value. In other words, any national bank was compelled to buy a specified quantity of Government bonds, the securities serving as basis for its note issue.

The national bank was then authorised to issue notes up to the amount of the securities. Another 40 per cent. of the bank capital was to be in the form of specie and to be kept in reserve for the conversion of its notes. In other words, two-thirds of the notes issued was to be covered by gold. Thus the Government expected that the market would be relieved of the tightness of money and the Government of its inconvertible notes, which would be replaced by the bank notes based on gold. But the Government was deceived.

In those days the majority of the people were the tillers of the soil, with a small percentage which followed the avocation of commerce; therefore they were total strangers to banking business and did not know how to use the service of banks. Besides, the high percentage of specie reserve requirement greatly restricted the banking business, and the National Bank Act was hedged in with stipulations difficult for a new bank with inadequate experience to satisfy. Consequently many banks suffered loss. Another condition came to aggravate the situation. The European countries one by one discarded bimetallism and came to adopt the gold standard in succession. The value of gold appreciated steadily. Naturally the people would clamour to convert their bank notes into gold.

All the above conditions checked the rise of national banks, hence only four were established. They were the First National Bank in Tokyo, which was founded by the Mitsui interests, the Second National Bank in Yokohama, which was converted from the Yokohama Exchange Company, the Fourth National Bank in Niigata and the Fifth National Bank in Kagoshima. The Third National Bank was founded in Osaka but failed to start business.

The capital stock of these national banks totalled 3,450,000 yen. Although the authorised note issue amounted to 2,070,000 yen, the actual issue never exceeded 1,356,000 yen and was further contracted to only 60,000 yen in 1876.

The failure of the scheme was due principally to the following reasons. Since Government paper money was inconvertible and had depreciated a good deal, while the bank notes were convertible and redeemable in gold, naturally the notes came in and the gold went out. The merchants had to pay large sums for imports of gold, so they had to encroach, of necessity, on the banking gold reserve, causing the bank notes to disappear from circulation (Gresham's Law). The error lies in trying to make money of different qualities circulate side by side ; thus defeating the very purpose for which the National Bank Act was initiated. Apart from this, political exigency obliged the Government to give pensions to the military class.

In 1876 the annual payment of rice to the Samurai was replaced by pension bonds which the Government issued up to 174 million yen. These bonds had to be well maintained, and any depreciation of their value would throw the Government into great political disturbance, as the military class might try to overthrow the central Administration. To dissipate this danger the Government devised a Machiavellian scheme which would create an artificial demand for these bonds and at the same time provide the Samurai with some occupation by "giving the whales a ball to play with." Accordingly the National Bank Act was amended, stipulating that from 1876 onwards a national bank could issue notes up to 34 million yen against the deposit of pension bonds (or other Government bonds) with the Treasury, equal to 80 per cent. of its capital.

Moreover, the new Regulations provided that 20 per cent. of the capital of the banks could be paid with currency in circulation, i.e. inconvertible Government paper money, and that the specie reserve could be lowered to the minimum rate of 25 per cent.

With this marked alleviation in the specie reserve the national banks were placed in a favourable position, and as a result new banks were organised in different places every year.

At the end of 1879 the number of national banks reached 153, with the combined capitalisation of 40,610,000 yen. This was the maximum figure set by the Government and no further permission was given. The authorities allotted national banks for different localities according to the size of population and the amount of taxes.

The aggregate of the note issue amounted to 34,500,000 yen in 1880. The provision with regard to specie reserve, which was changed by the amendment of the Act to 25 per cent., was obviously insufficient, thus rendering the note practically inconvertible.

The aim of the Government to maintain the value of the pension bonds was fulfilled and banking became profitable. The banks were now able to reap profits both from the interest of the pension bonds deposited with the Treasury and from the note issue.

The largest of these banks was the Fifteenth Bank established by the nobles' club in 1877 with a capital stock of 18 million yen. Although there were many banks established, trade and industry by no means profited by them, since a big amount of their capital was in the hands of the Government. For instance, the Fifteenth Bank, out of 18 million yen capital stock, had 15 million yen tied up with the Treasury, hence it could not be considered an influence on the money market. And what was more, the founders and directors of these banks were more or less men without business experience and ability—they were not bred to the trade—so the banks were recklessly managed until they depended more on their printing press than on business operations. They were glad to snatch at every opportunity to put their money in circulation. Experience had told them to a nicety how to throw out their " legal tender." They even went so far as to invite individuals to launch new enterprises which they themselves financed, and to prop up questionable undertakings ; hence the growth of unhealthy business with unsound banks at their back. Very soon the hollowness of the whole scheme sounded a death knell. The days of difficulty had arrived. With the pressure becoming intense, many banks had to stop payment and others were much shaken. Being thoroughly alarmed they resolved to contract their issues, and bankruptcies multiplied with frightful rapidity until the Government felt the greatest concern. However, this eventuality did not militate against the fact of their being able to sow the seeds of danger for a decade.

The policy was carried out to the bitter end and the result was that all commercial and banking credit was on the verge of ruin. The national banks picked the lock of the Amendment Act and opened the flood-gates, to inundate the country with paper money, the evils of which fell full on the Government as well as on the public. The Government had hoped that there would be more liquidity in capital and that the rate of interest would

be lowered, yet the lack of central control and co-operation between the banks, coupled with the fact that their capital stock was relatively small in comparison with their note issues, rendered them most unsafe and harmful to trade and industry. The business of the banks was conducted without any knowledge of banking, therefore a great amount of their available assets was locked up in long-term loans for which there was great demand, causing a shortage of liquid funds. The result was the aggravation of the situation instead of its amelioration. The rate of interest soared upwards and trade and industry suffered.

Luckily there were at that time a few private banks established by the merchants, who were business men and ran their establishments with caution. They were not allowed to issue notes, hence they had to keep their capital liquid and dealt only with short-term loans. However, since their number was so small, and also their aggregate capital, their influence in the money market did not go very far.

In 1883 the Government realised its mistake, so a new financial policy was shaped, doing away with the national banks altogether. The privilege of note issue was withdrawn at the expiration of each charter. The central bank system was then adopted, but only after twenty years of bitter experience.

The circumstances of the crisis signally vindicated the wisdom of the adherents of the single reserve system, and the Banking Act of 1883 was passed amid general applause.

The Banking Act of 1883 stipulated that national banks should end by 1899 and all their notes be redeemed. No new national bank was allowed to be established after 1883, but the existing banks might continue their business as ordinary banks. Thus ends the lamentable history of the national banks in Japan.

The termination of national banks was of great benefit to the private ordinary banking institutions in that it stopped altogether the multiplicity of issues and the trading of the banks in commodities. As these private institutions never issued paper money and did a minimum of trading they survived the crisis when many national banks crumpled one by one, before the Government took steps to abolish the system. In spite of caution the private institutions were also badly hit, but as their assets were in loans on commodities instead of in commodities they were able to hold out. The compulsory closing down of some of the national banks and the failure of some others resulted in enormous losses to dealers and bankers, but somehow such losses did not have any permanent effect on the

growth of trade and banking in the country, probably owing to the extraordinary recuperative power of Japan. Indeed, the notes of the national banks would have been depreciated to rock bottom if the Government had not intervened by compelling them to cease business. Hence the depreciation was not yet enough to disorder ordinary transactions, but enough to gravely disorder exchange transactions, which are always calculated to extreme fineness. A few months after the close of the national banks, new banking institutions were started. Although some of them could not be classed as quite sound if judged from the standpoint of the canons of modern banking, they were certainly an improvement. Gradually the number of these banks increased.

As they did little else besides banking in the proper sense of the word, with of course slight modifications to suit local needs, they were to a large extent substantial. None of them had any Government deposits to do business with, for the Government had very little revenue to speak of, and what it had was deposited in the Bank of Japan or its branches.

The change brought about by the adoption of the Government's new banking policy was the issue of notes of the central bank and the disappearance of the multiplicity of notes of the banks of issue.

From a financial standpoint the national banks had wrought much harm, but from the standpoint of banking experience—to do them justice—the national banks had helped to train men in banking technique and had sown the seed of future development. Consequently, when some of the banks transformed themselves into ordinary banks, they were found capable of conducting their real banking business. Most of the ordinary banks of today arose like the phœnix out of the ashes of the national banks. The Japanese people are usually quick at profiting from their mistakes and quick to make good their shortcomings.

CHAPTER X

CENTRAL BANK

IN the period just after that of the national banks there existed six kinds of paper currency in circulation issued by the Imperial Government, including the *Dajokan satsu* or the Treasury notes. Each of these was issued in three to nine denominations varying from 10 sen to 10 yen ; thus altogether thirty-two varieties of currency notes amounting to 275 million yen were put out. But these notes were not issued all at once, some being put out to replace the older issues. Moreover, adjustments were made frequently, therefore the amount outstanding at one time was not so large, the maximum being 139,418,000 yen at the end of 1878, which was the year following the Satsuma rebellion.

In addition to the Government paper money there were also notes issued by the national banks, which reached 26,279,000 yen at the end of the same year. This brought the total amount of paper currency in circulation to 165,697,000 yen.

The consequences of this large issue of practically all inconvertible paper money can be imagined. The decline in the value of currency, coupled with the adverse balance of trade, resulted in an efflux of specie and a slump in the market price of national bonds. The depreciation of currency caused an advance in commodity prices, giving rise to excessive speculative trade. On the other hand, landowners rejoiced over the high price of rice, while the masses suffered from depressed conditions and economic uneasiness prevailed.

The late Marquis Shigenobu Okuma, then Minister of Finance, considered it imperative to restore the specie payment by withdrawing the inconvertible notes and accumulating precious metals. He introduced many measures towards that end. For instance, taxes were raised to increase State revenue and retrenchment was effected to reduce the expenditure of the central government. With thrift and economy in the State

expenditure and with revenue derived from the sale of factories under State ownership, the Government succeeded in obtaining funds for the redemption of some of the paper money. Further, the Government issued interest-bearing bonds to replace the inconvertible notes, while a device was set up to reduce the amount of international payments in specie.

These measures, however, caused sharp changes in the monetary situation and the volume of notes issued by the national banks registered an enormous increase. The reduction of the Government notes brought about an augmentation of the national banks' notes ; the volume of note circulation, therefore, did not change. Thus the Government scheme failed to bring about any shrinkage in the amount of inconvertible paper in circulation.

By 1881 it was pretty clear to everyone with financial knowledge that the situation created by the national banks had become extremely serious. The ratio between silver (which was not legal tender throughout the Empire) and paper money was 1 : 81, in other words 1 yen of silver equalled 81 paper yen. Price level rose at a rapid rate. The price of rice, the staple food of Japanese of all classes, became double what it had been in 1877, and specie fled from the country at an alarming rate. Side by side with the increase in prices the rate of interest soared dizzily upwards, accompanied by a steep fall in the price of Government bonds. Speculation went beyond due bounds.

The failure of the national banks and the situation they brought about left not the slightest doubt as to the defects of the system. There was no alternative for Japan except to establish a central organisation which would take charge of the currency system of the country.

Incidentally the question presented itself, whether a State bank or a private organisation could best serve the purpose and could help the Treasury to control and regulate adequately both currency and banking.

Had it been today the Government of Japan would not have needed to worry itself with this question, as experience during the Great War produced abundant proof of the danger inherent in the State Bank. The decision would undoubtedly settle upon a private concern, subject to adequate control and supervision of the State ; and at the same time that concern would be free in its functions, untrammelled by the influence of the political parties which would lead to unsound finance. But at that time the facts were obscured by traditional arguments and hidden in the sands of controversy ; consequently Japan

was not provided with a clear-cut exposition of the merits and defects of both the State bank and a private institution delegated by the Government to issue notes. In fact, Japan at that time was really living amid the vestiges of the old controversies of Europe and America ; and so it came about that the Government chose the middle course between a full-fledged State bank and a purely private concern, and then hoped for the best. "Since 1920 any country which intends to organise a central bank has one advantage in making use of the suggestions contained in the resolutions of the International Financial Conference which met in Brussels in 1920."—(Kisch and Elkin.)

In order to get an idea of how far short of a modern organisation the Bank of Japan finds itself, we must go into the current theory of the modern central bank.

Nowadays it is observed that even a private bank once delegated by the Government to issue notes ceases to be a mere private body, because the very right of issue involves an obligation on the part of the Government necessitating the State's special attention and strict supervision. On the other hand, a full-fledged State bank has many weak points inherent in it, as for instance in the periods of tension when it so easily loses the confidence of the public. By having to depend entirely on the State, the bank is likely to be made use of in the interests of the Government alone, or even of a single political party, against the interests of others. Being a State enterprise it is apt to have a bureaucratic tendency which entails red tape instead of sane commercial methods. When this comes to pass the Bank is likely to be strangled by its own creation and may even act in conflict with the economic life of the country. Without going into details it is sufficiently clear that a private concern, serving as a bank of issue and subject more or less to the control of the State, has certainly proved to be better than a State bank. The history of central banks during the World War is replete with proofs. Moreover, the State central bank of past ages, such as in Spain and Russia, proved itself incapable of keeping up the value of paper currency. Again, as governments are prone to resort to the easiest way of getting immediate resources by issuing notes through the State bank under its authority, without paying sufficient attention to economic conditions, such paper money has never been received with the same confidence as the notes of a private bank of issue. In France during the Revolution, in America during the Civil War, in Austria, Russia and Italy, Government paper money

depreciated badly. So late as a few years ago Germany's currency system collapsed under the strain of inflation.

The central banks of England, France and Belgium, not to speak of smaller institutions, have all been private institutions. "As late as 1854 the Banks of Spain, Portugal, England, Sweden, Denmark, Russia and Austria became practically insolvent in consequence of the credit they granted or were obliged to grant to the State."—(Wagel.)

The Bank of France in the time of John Law also failed for the same reason.

After that sad experience the banks in Europe and America adopted the principle of not giving a blank credit to anyone, even to the State; and they have been able to do so simply because they are neither State banks nor entirely dependent upon the Government. Since then the banks have become more and more independent of the Government, in spite of the fact that they are banks of issue. Only by being independent can they be useful to the State and come to its aid in time of stress. In 1870-1 the Bank of France was able to assist the Government by giving advances when the Government was completely paralysed; and President Thiers clearly affirmed that the Bank of France had saved France because it was not a State bank. In the World War of 1914 the issuing banks of private character contributed largely to allaying the psychological crisis and financial panic; but if the banks had been State institutions, dependent upon the states, very serious financial consequences might have ensued. As a matter of fact, during the war the public had more confidence in the banks than in the governments, and this confidence was based on the assumption that the banks were not under the thumb of the authorities although they were banks of issue.

In civilised countries with a big volume of foreign trade the idea of a State bank has been discarded, but on the other hand if that idea is given up precaution is taken to prevent a private bank from degenerating into a purely private concern for the interests of a particular group or groups. Government supervision must be given, but limited of course to general supervision, and must never tend to subordinate the banking organisation to any policy of promoting unsound finance.

It was owing to this fear that the Bank of Japan, although in structure a private concern, was rendered an official institution subject to a rigorous Government control.

The right of issuing paper money is one of the characteristics by which a central bank is especially distinguished from the

ordinary banks. The second characteristic is that it should perform the function of the bankers' bank; it follows, then, that this bank should place as much capital as possible in the hands of the ordinary banks. Yet it does not mean that the bank should have nothing to do with the public directly; for it can open deposit accounts to all and, with certain reservations, do the usual banking business.

The second characteristic was lacking in the central bank of Japan.

The principle underlying the issue is mainly the economising of currency. At the outset it is much safer to begin with a sufficient proportion of specie reserve in order to create thorough confidence; and if a full proportion of specie reserve can be acquired, it is all the more advantageous towards that end. Although such a procedure may not be economical, yet it is necessary to evolve a system as sound as possible by which paper money will be accepted throughout the country at its face value. However, it is granted that, until it can be arranged to accumulate specie reserve for at least 40 per cent. of the issue—the rest to be covered by securities—no attempt to issue paper is possible. The Bank of Japan adhered to this principle, consequently it did not issue any notes in the beginning (1882) until 1884, by which time it had acquired sufficient reserve. The Government was determined that there should be no more revival of inconvertible notes. Any course would be futile which left out of consideration the necessity for metallic reserve. Paper should be issued for the sole purpose of economising precious metals and saving on coinage expenses; therefore the bank, delegated by the Government to issue and control the paper currency, should possess the full amount of reserve in specie which would permit of immediate conversion. The creation of unsecured paper money is dangerous even as an expedient, because it is liable to develop into inflation. The moment people become aware that there is a sufficient reserve to meet all demands for conversion of paper money they would not trouble to think of the risk of losing, and would prefer to leave coin and bullion in the bank rather than to carry about heavy weights of metal for their daily transactions. The accumulation of precious metals in the vaults of the bank would produce a salutary effect on the economic life of the nation, as it would engender a confidence which is a stimulus to production and trade.

The Bank of Japan fully recognised this fact.

The third characteristic of a central bank is to provide an efficient central control of the credit of the country. But the

mere establishment of a central bank does not necessarily ensure this needed central control. The bank must be so constituted as to be able to control credit, and in particular to enforce a restriction of credit on the commercial banks when it is desirable to do so. If the commercial banks are given free rein in expanding and contracting credit at will in spite of a higher bank rate, the whole compensatory machinery for attracting gold and for regulating the volume of notes in circulation becomes inefficacious.

This point seems to have escaped the notice of the founders of the Bank of Japan, hence the weakness arising from the lack of this requisite authority in the central bank to control the money market. Owing to this point being relegated to secondary importance, in the past only a few of the commercial banks kept their balances with the Bank of Japan or looked upon it as a bankers' bank. The central institution, as a result, was powerless to control their policy. Even when the monetary situation urgently required a restriction of credit, and when the Bank had accordingly raised its rate of discount, it had at times been unable to check the continued granting of excessive credit by the commercial banks. It is this weakness of the bank that has been one of the chief causes of the frequent crises hitherto occurring in this country. We shall come back to this point later on.

Nowadays the lack of a central bank is rare and exceptional in advanced countries. Argentine may be cited as a case in point. The security of the currency of this country depends on the functioning of the gold conversion office, which was reopened in 1927 but closed again by the Government in December 1929. The result was the immediate depreciation of the peso. Siam affords another illustration of a country which has no central bank, but this country has no bank notes except Government notes. Her paper money actually in circulation has 100 per cent. gold cover, hence virtually constitutes gold certificates. Canada provides an example of the other extreme. It still retains ten chartered banks with the right of note issue; but the system was not able to prevent a serious depreciation in the Canadian dollar during 1929. Another illustration is provided by Italy, which in 1926 took steps to unify through the Bank of Italy all the note issues which were hitherto divided among that bank, the Bank of Naples and the Bank of Sicily. The notes of the two last-named banks were replaced gradually by notes of the Bank of Italy and ceased to be legal tender from June 30, 1927.

Messrs. Kisch and Elkin frankly stated that unless a country is under the dominating influence of a neighbouring money centre (such as Ireland and England), or unless the local credit structure is insufficiently developed, the arguments on the economic side for not handing over the management of currency to a central bank are not convincing.

But all this is significant only at the present time. Before the war of 1914-18 no such clear-cut theory was available ; hence whether to have a central bank or not did not seem to Japan a matter of primary importance, and the result was the mistake of adhering to plural issues.

Nowadays the risk of prematurity in the creation of a central banking system is not necessarily to be regarded as a factor in the decision to postpone its organisation to a later date. As Messrs. Kisch and Elkin point out, there is no influence so potent in the way of developing the credit system on sound and progressive lines as a well-founded central bank. In spite of the earnest desire of some statesmen of Japan to form a central institution after the English pattern, the national banks were created instead.

The regulations defining the national banks' functions were not so devised as to prevent the banks from taking risks, which is unaccountable in view of their national responsibilities. This is another proof that the Government of Japan was not fully aware of this obligation ; but it is only recently that we see the close concern of the governments for the soundness of the banks of issue, some of which are even conducted under a Government guarantee. In Sweden, for example, the Bank Charter states unequivocally that the Riksbank is placed under the guarantee of the Riksdag.

The pre-war tendency, particularly as regards actual statutory provisions, was totally different. It somewhat emphasised State control of certain functions and dealt loosely with other functions or else turned the business into a State enterprise. The case of the Reichsbank may be cited as instance of a general disposition to regard a State or semi-State bank as analogous to a State railway system or a State tobacco monopoly, therefore it is not surprising to find that the Government of Japan, in pursuing the prevailing policy of the period, adopted the system of control similar to that of the Reichsbank.

In October 1881 the Government found the right man for the right place. Prince Matsukata was appointed Minister of Finance. The Minister proved himself not only a statesman of rare vision but a financier of talent. He lost no time in

reorganising both the currency and the banking system of the country. His gigantic task was rendered easy, however, by his enjoying almost unchallenged authority in his own sphere; and his long tenure of office afforded him the rare opportunity of modelling and remodelling his plan. He was not content with withdrawing the inconvertible notes and tax adjustments or reducing the international payments, but he went farther—he encouraged exports and established a central bank. Within the space of twenty years the financial system of the country was deeply rooted and grounded.

The table below clearly indicates the success of his plan:

AMOUNT OF GOVERNMENT'S INCONVERTIBLE NOTES ISSUED, WITHDRAWN AND IN CIRCULATION

(In thousand yen)

Years Meiji A.D.	Issued	Withdrawn	In Circulation
1 (1868) ...	24,037	—	24,037
2 (1869) ...	26,053	—	50,090
3 (1870) ...	5,408	—	55,500
4 (1871) ...	4,772	—	60,272
5 (1872) ...	8,128	—	68,400
6 (1873) ...	20,733	852	88,281
7 (1874) ...	14,633	1,111	101,802
8 (1875) ...	2,443	5,173	99,071
9 (1876) ...	4,545	1,529	105,147
10 (1877) ...	650	1	105,797
11 (1878) ...	34,657	1,035	139,418
12 (1879) ...	1	9,111	130,308
13 (1880) ...	410	5,778	124,940
14 (1881) ...	—	6,035	118,905
15 (1882) ...	—	9,536	109,369
16 (1883) ...	—	11,369	97,999
17 (1884) ...	—	4,619	93,380
18 (1885) ...	—	5,035	88,345

At the end of 1883 the Government inconvertible paper money in circulation amounted to only about 98 million, equal to the level of 1875, showing a contraction of approximately 30 per cent. in comparison with the peak of 1878; hence a gradual recovery in the value of currency followed.

The Government then abolished the method of redeeming paper money by the Treasury surplus, which was utilised,

instead, in purchasing precious metals, commencing from the year 1884. However, other funds were employed for the redemption, and as a consequence the Government's notes in circulation had declined to about 88 million by the end of 1885; and at the same time the amount of specie reserve had accumulated, absorbing a considerable proportion of 42,260,000. Based upon this reserve the Government finally decided to resume specie payments.

In January of the following year the authorities started to convert the notes into silver, and the converted notes were forthwith destroyed. Although in course of readjustment of its currency Japan encountered sharp and frequent slumps in commodity prices, causing money panics and so forth, yet the Government did not waver, and continued in its fixed plan until it was able to surmount all obstacles in a remarkable manner.

To arrive at a comprehensive understanding of the plan and the banking system at this time it may be necessary to go into some detail about the organisation which Prince Matsukata had built up. The Minister's idea was that in a healthy society there should be a variety of banks whose functions should be distinct and exclusive; for instance, banks for short-term loans to facilitate trade and commerce, banks for long-term loans to aid industries, banks to collect savings from the poorer classes, etc. All the banks should be chartered by the State, and each type should have its peculiar functions and its especial advantages. Some privileges should be available for banks of one type and not for banks of another type, since some permit of a lower capitalisation and some a higher. At any rate the Government should control the activities of all these banks. The execution of this idea determined the financial organisation of this country. The most serious problem of the day was the inconvertible paper money, which depreciated more and more. It was imperative that these notes be redeemed and a specie reserve accumulated as the prerequisite to the establishment of a sound currency. Prince Matsukata deemed it necessary to initiate a central institution which was to be strictly and closely controlled by the Government; and whose mission was to issue convertible notes, to regulate the amount of currency and to manipulate the foreign exchanges in the interests of the nation. The Minister was of the opinion that the financial evils from which the country was suffering were the result of unequal distribution of wealth and the excess of the issue of currency, entailing a shortage of loanable funds and the efflux of precious

metals. He strongly criticised the national banks system and emphasised the need of a central organisation which, once established, would co-ordinate all the banking activities and bring to the same level the rates of interest throughout the country. The hoarding of precious metals would automatically cease, and credit transactions would be greatly facilitated. The rôle of the Treasury in banking operations would be taken over by the central bank, and the tightness of money, consequent upon the seasonal collection of taxes, would be remedied. Most important of all was the withdrawal of the inconvertible paper, which duty would be entrusted to the central bank.

The Constitution of the Bank of Japan was drawn up with these ends in view. The circumstances then were more favourable than before to the establishment of such a bank because :

1. The Government needed a central institution in order to handle the Treasury accounts which could be utilised in accumulating specie.

2. It needed an organ, and a sole organ, to issue notes against specie reserve, as the plural reserves had proved a failure.

3. It required an organisation to take charge of adjusting and controlling the undesirable currency situation created by a defective system which had allowed more than a hundred banks of issue. It was seen to be futile to expect the national banks to serve the public interests at the expense of their own, as experience showed that these banks increased or reduced the amount of their notes according to their own business requirements; and the volume of currency in circulation fluctuated irrespective of the market's actual demand for currency. Moreover, in view of the fact that the national banks could earn greater profits by expanding their paper issue, they therefore induced the industrialists to form companies and financed them almost recklessly. Further, the National Bank Act made it possible for the banks to lend money on real estate security; as a consequence a considerable amount of bank funds was frozen. Such being the situation it was absolutely necessary to withdraw the note-issuing privilege from the national banks and to concentrate the business in a single central organisation, so that the money market and the currency situation might be effectively adjusted and controlled. Coincident with such a situation in this country, there was a pronounced tendency in European countries towards a unification of note issuing systems.

4. The national banks and the ordinary banks in those days operated their businesses quite independently without any

correlation. This caused the money market an undue strain at one time and excessive ease at another. Such a development reacted detrimentally on the general monetary situation as a whole.

The need for a central bank was therefore sorely felt, in order to provide a special source for ways and means, and to supply funds liberally and at low interest for the sound development of banking and other undertakings.

5. In time of financial panic, which Japan had already experienced, the existence of a central bank to provide a liberal supply of funds to tide over the crisis was felt to be imperative.

The Bank of Japan, called *Nihon Ginko*, was therefore constituted in October 1882 after the model of the Bank of Belgium, whose prototype was the old Reichsbank.

It was formed as a joint stock company with a capital of 10 million yen, of which 50 per cent. was subscribed by the Government and the rest by the public—the Government holding was transferred afterwards to the Imperial Household.

However, the central bank did not actually exercise the note-issuing right, owing to the wide variation which existed between silver and paper money in circulation ; the bank was fully preoccupied with aiding the Government in effectively adjusting the currency system.

In May 1884 the Convertible Bank Notes Regulation was promulgated and in May of the following year the bank began to issue notes.

The Regulation, however, merely provided that the specie reserve for the convertible notes should be in silver coins, without stipulating either the maximum issue or the minimum specie reserve. The Government simply instructed the bank to maintain a fixed specie reserve of 2 million yen and to issue notes to the extent of 5 million. Such a policy was probably due to the fact that the paper money in actual circulation, consisting of the Government notes and the national banks' notes, already made up a large quantity ; hence the bank's notes should not go to swell that quantity to a dangerous volume. Apart from that, the authorities were afraid that the bank's notes, being based on specie reserve and convertible into silver, might be driven out by the inconvertible notes. Therefore no limited amount of the Bank of Japan notes was prescribed ; this was left to the discretion of the Minister of Finance.

The Government started to redeem its notes with silver coins in January 1886, and since then the Government paper money and silver coins have been in circulation on parity.

A steady increase was subsequently registered in the volume of Bank of Japan notes. In March 1886 the Government ordered the bank to increase its notes to 20 million yen.

After having acquired experience in this manner the Government revised the Note Regulation in July 1888 on the model of the system of Germany of those days. This Regulation is still in force today.

The essential points of the law governing note issue were as follows :

1. Whereas the specie reserve had hitherto consisted of silver coins alone, the new law required the Bank of Japan to hold gold and silver coins and bullion as reserve against its notes in circulation.

The law authorised the bank to issue notes to the amount of 70 million against securities such as national bonds, Treasury bills, the Government promissory notes, foreign exchange bills, and other sound securities.

2. The law fixed the minimum rate of tax on the fiduciary issue over and above the normal limit of 1,000 million at 3 per cent. per annum.

3. The Bank of Japan was required to loan to the Government 22 million yen as monetary compensation for the exclusive rights to the note-issuing privilege at an interest of 2 per cent. per annum. Later this clause was amended, doing away with the interest altogether.

4. The bank shall pay to the Government half of the remainder of the net profits after deducting the amount equivalent to 6 per cent. on the paid-up capital and apportioning to the reserve fund one-twentieth of the balance of the above deduction. In case the balance of the net profits after this payment to the Government exceeds 4 per cent. per annum on the paid-up capital, three-quarters of the excess amount shall be paid to the Government.

5. The bank is required to publish in the Official Bulletin the weekly average amount of note issue and specie reserve in order to maintain public confidence.

The limitation of the fiduciary issue was raised to 85 million in May 1890 and to 120 million in March 1899. This amount remained unchanged during thirty years in spite of frequent demands for expansion.

In June 1932, however, it was increased to 1,000 million as a monetary measure to cope with the difficult economic conditions.

The specie reserve of the Bank of Japan had until then been

gold and silver, but when the gold standard was adopted in October 1897, utilising the gold indemnity received from China, silver was permitted to form one-quarter of the total specie reserve. At the present time silver holding is virtually excluded.

It should be mentioned that the Government was obliged to place an embargo on the export of gold in three successive periods, that is, on September 12, 1927, on January 11, 1930, on December 13, 1931; at the time of the last embargo the Government suspended the conversion of the Bank of Japan notes, the Regulations of which are still in force.

In view of the adverse balance of trade which had been characteristic of Japan's international account, this country had always kept a part of its specie reserve in foreign countries. The reasons for this are set forth in the chapter on the Yokohama Specie Bank.

Various difficulties were encountered by Japan during many years regarding the question of specie reserve, and on many occasions this country had to borrow funds from foreign nations.

Owing, however, to the great improvement in the international balance during the war of 1914-18 the specie reserve of the bank ascended to the level of the total volume of currency in circulation.

Later, a drastic shortage occurred owing to the flight of capital and excess of imports; the Government therefore enacted the Foreign Exchange Control Law in May 1933, with a view to preventing the efflux of specie; and, in addition, a Gold Purchase Law in order to replenish the gold reserve. Under this law the Government shall purchase gold at a certain price on the market, in order to encourage gold-mining in the country, and sell it at a discount to the Bank of Japan (5·00 yen per momme). The loss sustained by the Government in this connection had reached the high figure of 200 million yen. The funds necessary for the purchase are loaned by the Bank of Japan and the bank is required to make good to the Government this loss, from its profits due to currency devaluation or other such monetary measures that may be adopted by the Government.

The national banks stopped their note issuing at the end of 1899, while the paper money issued by the Government was completely withdrawn from circulation at the end of the same year. Hence, from that date only the notes of the Bank of Japan are the paper currency of the country.

The volume of the bank's notes and other balances since 1885 are given in the following table:

THE AMOUNT OF ISSUE OF PAPER CURRENCY

(In thousands of yen)

Years	Government Inconvertible Notes	National Bank Notes	Bank of Japan Notes	Total
Meiji A.D. :				
18 (1885)	88,345	30,155	3,653	122,153
19 (1886)	67,800	29,501	39,025	136,328
20 (1887)	55,815	28,604	53,235	137,654
21 (1888)	46,734	27,679	62,995	137,409
22 (1889)	40,913	26,739	74,297	141,949
23 (1890)	34,272	25,810	102,931	163,014
24 (1891)	28,737	24,869	115,734	169,341
25 (1892)	21,409	23,890	125,843	171,143
26 (1893)	16,407	22,756	148,663	187,826
27 (1894)	13,404	21,781	149,813	185,000
28 (1895)	11,129	20,796	180,336	212,262
29 (1896)	9,376	16,497	198,313	224,187
30 (1897)	7,451	5,024	226,229	238,704
31 (1898)	5,411	1,866	197,399	204,678
32 (1899)	4,125	0	250,562	254,687
33 (1900)	0	0	228,570	228,570

THE AMOUNT OF ISSUE OF BANK OF JAPAN NOTES

(In thousands of yen)

Years	Amount issued	Years	Amount issued
Meiji A.D. :		Taisho A.D. :	
34 (1901)	214,096	8 (1919)	1,555,100
35 (1902)	232,094	9 (1920)	1,439,240
36 (1903)	232,920	10 (1921)	1,546,545
37 (1904)	286,625	11 (1922)	1,558,402
38 (1905)	312,790	12 (1923)	1,703,596
39 (1906)	341,766	13 (1924)	1,662,315
40 (1907)	369,984	14 (1925)	1,631,783
41 (1908)	352,734	Showa :	
42 (1909)	352,763	1 (1926)	1,569,708
43 (1910)	401,624	2 (1927)	1,682,390
44 (1911)	433,399	3 (1928)	1,739,096
Taisho :		4 (1929)	1,641,851
1 (1912)	448,921	5 (1930)	1,436,295
2 (1913)	426,388	6 (1931)	1,330,575
3 (1914)	385,589	7 (1932)	1,426,158
4 (1915)	430,138	8 (1933)	1,544,797
5 (1916)	601,224	9 (1934)	1,627,349
6 (1917)	831,371	10 (1935)	1,766,555
7 (1918)	1,144,739		

The principal features of the Bank of Japan Act are as follows:

1. *Capital Stock.*—Subscribed, 60 million; paid-up, 45 million; par, 200 yen registered.

The stock is in shares of five denominations: 1, 5, 10, 100, 1,000 share stock.

The original capital stock was 10 million yen in October 1882, but increased to 20 million in March 1887, to 30 million in August 1895, to 60 million in February 1910.

2. *Reserve Funds.*—Consisting of two kinds: (a) Loss covering reserve; (b) dividend equalising fund.

If the dividend falls below 6 per cent. it shall be made up by drawing on the reserve (b). Any deduction thus effected must be made good in the ensuing business term.

The reserve funds must be employed in the purchase of gold and silver coins, bullion, or national bonds.

3. *Shareholders.*—(a) Only Japanese are entitled to hold shares.

(b) Any Japanese desirous of becoming a shareholder must obtain permission of the Minister of Finance.

(c) General meetings of shareholders may be attended only by those who own ten or more shares for at least sixty days before the meeting.

(d) Each shareholder shall have one vote for every ten shares, one additional vote for every fifty shares over and above that number. No one can have more than ten votes as proxy for others.

This regulation differs in principle from that of the Commercial Code, which stipulates that one share is entitled to one vote. The right of shareholders to the distribution of dividend is equal to that of shareholders of an ordinary joint-stock company.

4. *Board.*—(a) One governor; (b) one vice-governor (both of whom are appointed by the Government for a term of five years).

(c) Four directors who are selected and nominated by the Government from twice as many candidates elected by the general meeting of shareholders. The term of office is four years.

(d) Four to five auditors who are elected by the general meeting of shareholders for a term of three years.

It is stipulated that the governor and vice-governor cannot

hold any Government office or undertake any official functions for other banks. The directors and auditors are required not to hold any official posts in other banking institutions and companies. The law provides an exception in regard to the Yokohama Specie Bank. The governorship of the latter bank may be filled by the governor or vice-governor of the Bank of Japan, and the governor of the Yokohama Specie Bank is permitted to be a director of the Bank of Japan.

5. *Advisory Council.*—An advisory body to serve as adviser to the Government is established in order that reliable informations may be obtained regarding economic conditions of the country which may serve as guidance to successful operations of the bank.

The Advisory Council is to consist of not more than five members and a president, which post the governor of the Bank of Japan occupies by right of his position.

The members of the council are appointed by the Minister of Finance for three years from among persons engaged in financial business or industries, or persons of learning and of tested business experience.

6. *The Functions of the Bank.*—The bank has up to the present seventeen branches and one sub-branch.

The business of the bank :

(a) Purchase and sale of national bonds.

Loans can be granted on the security of national bonds provided that the period does not exceed six months and the amount does not exceed 80 per cent. of the market value of securities deposited.

(b) Discounting bills endorsed by two or more approved persons and payable within 100 days, provided that merchandise attached to the bill may be accepted as collateral replacing one signature.

(c) Accepting deposits in the form of Government balances, of the clearing of settlement funds of banks, and of the balances of banks as reserve for payment of deposits (cash reserve).

(d) *Safe-keeping Business.*—Collection of bills, purchase and sale of bullion, and advances made against bullion.

(e) *Issuing Bank Notes.*—The denominations of bank notes as provided by the Regulation are of seven kinds : 1, 5, 10, 20, 50, 100 and 200 yen. The 50 and 200 yen notes are not issued at present.

The Bank of Japan accounts on March 25, 1937, were as follows :

	Yen (000's omitted)
Note issue	1,442,456
Specie reserve	545,687
Government current deposits	342,100
Loans extended	614,877

7. *Restriction on Business.*—(a) The bank shall not advance money on mortgage of real property or become owner thereof, except for its business requirements.

Mortgages may be taken over for the purpose of covering doubtful debts, but must be disposed of within one year.

(b) The bank shall not own shares of corporations.

(c) The bank shall refrain from all operations which may be regarded as contrary to national interest.

8. *Distribution of Net Profits.*—The method for distribution of profits is prescribed by the Act. An example may be shown as follows :

Distribution of Profits for the second business term of 1934

	Yen
Paid-up capital	45,000,000
Net profits	10,055,000
A. No. 1 dividend (paid-up capital × 6 per cent. ÷ 2)	1,350,000
B. Reserve fund (net profits—No. 1 dividend × 5 per cent. and over) ...	500,000
C. No. 1 Charter tax (net profits—No. 1 dividend — minimum amount of reserve × 50 per cent.)	4,135,000
D. No. 2 dividend (paid-up capital × 4 per cent. ÷ 2)	900,000
E. No. 2 Charter tax (balance × 75) ...	2,426,000
F. Bonus to directors and auditors (not to exceed the minimum amount of reserve)	240,000
G. Other reserves (non-compulsory) ...	160,000
Amount carried forward (after deduction of all the above items)	342,000

9. The charter of the bank lasts only until 1941 unless application for extension of the term is granted by the Minister of Finance.

10. The controllers, whose duties are assumed (*ex officio*) by officials of the Treasury, are empowered to supervise and inspect all matters connected with the operating of the bank. They may be present and may express their opinions at any meeting of the bank, though they have no right to vote.

It is necessary to scrutinise carefully and impartially the organisation of the Bank of Japan in order to understand its merits and defects.

By the law of this country the legal tenders are gold and silver coin (the first is rarely seen) and the Bank of Japan notes. But the number of attainable bank notes is not dependent on the fluctuating needs of the money market, but on the will of the State. It is limited by the provisions of the Bank of Japan Act. The bank can issue notes up to 1,000 million yen against commercial paper, Government obligations and other prime securities, but for all the rest it must have bullion deposited.

The bank is further authorised to issue notes in excess of the stipulated amount in times of crisis when there is an unusually large demand for cash. This excess issue has to be covered by security reserve and subject to a tax of 3 per cent. if the excess issue is to continue beyond fifteen days; but the actual amount of the issue is left to the discretion of the Minister of Finance.

With all these ends in view the central bank cannot be otherwise than an official institution. The Government, moreover, has subscribed half of its capital and also reserves the right of appointing its governor and vice-governor. The Minister of Finance has the prerogative of supervising and controlling the bank's policy and operations to the minutest detail. The constitution and other regulations of the bank governing its duties and operations remain to the present day with only slight modifications, which shows that the structure has stood the rest of time. Nevertheless, owing to the gigantic strides in the economic as well as financial affairs of the country, the Bank of Japan Act, after a strict scrutiny, is found rather behind the times, and some further modifications are impending.

In 1886 the bank succeeded in redeeming a large volume of the national banks' notes and in accumulating a considerable sum of specie reserve, which enabled it to start issuing its own convertible notes.

At the time of establishing the gold standard in this country the bank proved its usefulness in assisting the Government.

The fiduciary issue, which was first limited to 70 million, was raised to 120 million in 1899 and then again to 1,000 million in 1932, which amount stands until today.

The Bank of Japan has no power by law to increase the currency in any other manner than what is described by the Act—that is, 1,000 million for fiduciary—and any further issue the bank must have bullion as cover. This is evidently a " cast-iron " system and the paper legal tender can only be obtained in this manner, unless the Minister of Finance is graciously pleased to allow a further issue.

Now we shall see what are the defects of the bank's structure in serving the financial needs of the country. (The following is based partly on Mr. A. C. Allan's criticism and partly on the material obtained from the Research Department of Mitsui Bank and the Bank of Japan.)

1. The position of the Bank of Japan is unique and admits of no parallel in other countries, owing to the fact that it operates in the midst of a host of independent ordinary banks. Hence its relation to the money market is rather remarkable. (See Tables on pages 146-50.)

Take for example the bank's balance sheet, which may be considered a fair specimen of those of the last few years. These accounts are not as close as a central bank should require, and the amount of bankers' deposits at the central institution is surprisingly small. Inasmuch as the ordinary banks are not required by law to maintain a proportion of their cash reserve against repayment of deposits, their balances at the central institution are used mainly for the settlement of clearing accounts. Even for that purpose few of the ordinary banks —except the " big six " banks—keep their balances at the Bank of Japan. This, which is contrary to the practice in other countries, is doubtless for the purpose of economising banking capital, etc. It is concrete evidence that the central institution does not predominate in the money market, for which reason it has not been able to co-ordinate the financial activities of the country as desired and hoped for by its founders.

Apart from that, an inherent risk is also occasioned by the small bankers' deposits at the central bank. Considering the advantages to be gained by the bank depositors, the absence or the paucity of the bankers' deposits may mean that the safety reserves at all those banks, held to meet their liabilities, are allowed to run to an extremity. The central bank is by far

BALANCE SHEET,

LIABILITIES

		Yen
Notes issued		1,376,245,591·50
Redemption fund for Fractional Government Notes		11,160,000·00
Government Deposits :	Yen	
Current account ...	111,455,879·08	
Other	113,111,178·57	
		224,567,057·65
Funds for payment of Mint certificates		870,892·70
Current accounts		104,384,516·09
Remittances		2,806,149·78
Due to other banks		161,191·11
Suspense receipts		73,656,024·94
Reserve for sundry expenditures		18,663,000·00
Reserve for settlement of account *re* bills discounted, Law No. 55 of 1927		2,645,000·00
Capital subscribed		60,000,000·00
Reserve fund		113,240,000·00
Dividends unpaid		1,856·48
Profits brought forward from last half-year ...		10,798,660·46
Net profit for the current half-year		17,792,981·32
Total		2,016,992,922·03

PROFIT AND LOSS ACCOUNT FOR THE

Dr.		Yen
To Expenses, taxes, interest, etc.		24,607,870·17
To Balance appropriated :		
Dividend at the rate of 10% per annum	Yen 2,250,000·00	
Reserve fund	850,000·00	
Payments to the Government	12,993,228·21	
Bonus and allowances	240,000·00	
Reserve for settlement of account *re* bills discounted, Law No. 55 of 1927 ...	257,000·00	
Balance carried forward	12,001,413·57	
		28,591,641·78
		53,199,511·95

JUNE 30, 1935

ASSETS		Yen
Advances to Government, Article 2, Convertible Bank Note Regulations		22,000,000·00
Other advances to Government		67,075,009·42
Advances on foreign bills		94,812,427·65
Advances on current accounts		120,384·96
Bills discounted		31,813,995·57
Bills discounted, Law No. 55 of 1927		518,438,851·53
Deposits		26,898,672·60
Government bonds		578,698,479·08
Bullion :	Yen	
Gold	251,595,286·55	
Silver	14,544·30	
		251,609,830·85
Due from other banks		19,018·29
Agencies accounts		32,264,803·30
Agencies accounts, specified		16,764,271·23
Foreign agencies accounts		40,738,290·45
Suspense payments		10,249,200·26
Bank premises		10,929,014·43
Capital unpaid		15,000,000·00
Redemption fund for Fractional Government Notes as *per contra*		11,160,000·00
Cash items on Government account		12,706,559·66
Funds for payment of Mint certificates as *per contra*		870,892·70
Cash on hand :	Yen	
Gold coin	230,422,319·00	
Others	44,400,901·05	
		274,823,220·05
Total		2,016,992,922·03

HALF-YEAR ENDED JUNE 30, 1935

	Cr. Yen
By Gross Profits for the half-year	42,400,851·49
By Balance brought forward from last half-year	10,798,660·46
Total	53,199,511·95

BALANCE SHEET,

LIABILITIES		Yen
Notes issued		1,766,555,295·00
Redemption fund for Fractional Government Notes		11,040,000·00
Government Deposits:	Yen	
Current account ...	103,305,297·69	
Other	176,503,630·24	
		279,808,927·93
Funds for payment of Mint certificates		870,892·70
Current accounts		112,567,918·96
Remittances		7,067,842·58
Due to other banks		268,755·68
Suspense receipts		72,880,711·87
Reserve for sundry expenditures		16,654,000·00
Reserve for settlement of account *re* bills discounted, Law No. 55 of 1927		2,902,000·00
Capital subscribed		60,000,000·00
Reserve fund		114,090,000·00
Dividends unpaid		3,301·48
Profit brought forward from last half-year ...		12,001,413·57
Net profit for the current half-year		10,055,807·32
Total		2,466,766,867·09

PROFIT AND LOSS ACCOUNT FOR THE

Dr.		Yen
To Expenses, taxes, interest, etc.		27,373,428·77
To Balance appropriated:	Yen	
Dividend at the rate of 10% per annum	2,250,000·00	
Reserve fund	500,000·00	
Payments to the Government	6,561,702·34	
Bonus and allowances	240,000·00	
Reserve for settlement of account *re* bills discounted, Law No. 55 of 1927 ...	162,000·00	
Balance carried forward	12,343,518·55	
		22,057,220·89
Total		49,430,649·66

DECEMBER 31, 1935

ASSETS

Advances to Government, Article 2, Convertible Bank Note Regulations		Yen 22,000,000·00
Other advances to Government		96,123,584·28
Advances on foreign bills		180,860,309·91
Advances on current accounts		569,580·86
Bills discounted		162,912,578·35
Bills discounted, Law No. 55 of 1927		498,176,143·58
Deposits		34,176,632·60
Government bonds		729,268,759·90
Bullion :	Yen	
Gold	273,643,537·36	
Silver	14,544·30	
		273,658,081·66
Agencies accounts		27,925,332·70
Agencies accounts, specified		9,213,397·04
Foreign agencies accounts		111,503,758·52
Suspense payments		4,281,674·05
Bank premises		16,249,637·99
Capital unpaid		15,000,000·00
Redemption fund for Fractional Government Notes as *per contra*		11,040,000·00
Cash items on Government account		13,611,117·53
Funds for payment of Mint certificates as *per contra*		870,892·70
Cash on hand :	Yen	
Gold coin	230,422,554·00	
Others	28,902,831·42	
		259,325,385·42
Total		2,466,766,867·09

HALF-YEAR ENDED DECEMBER 31, 1935

	Cr. Yen
By Gross Profits for the half-year	37,429,236·09
By Balance brought forward from last half-year...	12,001,413·57
Total	49,430,649·66

BANK OF JAPAN

Statement of Average Note Issues during the Week Ending December 5, 1936

	Yen
Notes issued :	1,469,104,559·000
Reserves :	
Gold coin and bullion	544,842,733·000
Government bonds	363,414,373·000
Government securities	170,327,855·000
Other securities	155,079,211·000
Bills and notes	235,440,387·000
	1,469,104,559·000

Statement of Condition, December 5, 1936

Liabilities :		Yen
Capital subscribed		60,000,000·000
Reserve funds and Balance of profit and loss		138,384,590·677
Notes issued		1,430,642,045·500
Government deposits :	Yen	
Current account ...	160,516,474·627	
Other	124,831,446·062	
		285,347,920·689
Other deposits		53,445,944·580
Redemption fund for Fractional Government Notes		10,990,000·000
All other liabilities		97,472,542·378
		2,076,283,043·824

Assets :		Yen
Capital unpaid		15,000,000·000
Cash and Bullion :	Yen	
Gold coin and bullion	545,259,384·050	
Others	54,624,282·350	
		599,883,666·400
Bills discounted		536,839,683·610
Advances to Government, Article 2, Bank Note Act		22,000,000·000
Other advances to Government		159,430,767·380
Advances		31,924,133·830
Advances on foreign bills		94,465,490·150
Government bonds		496,270,176·700
Agencies accounts		77,122,309·468
Cash items on Government account... ...		10,368,952·363
Redemption fund for Fractional Government Notes as *per contra*		10,990,000·000
All other assets		21,987,863·923
		2,076,283,043·824

the safest and the easiest place for those bankers to keep their principal reserves on deposit, thus shifting the responsibility for taking care of it upon the central bank. The custody of very large sums in solid cash entails much care and some cost. The same reasons which make a private person use a banker are also applicable to every banker as respects his reserve; it is desirable for him to bank with the central bank if he can. If any bank does not do so, or does so only sparingly, the probability is that the cash reserve available at that bank is so slender as to cause a constant risk; because long experience would have told a banker to a nicety that he should not waste capital and lose profit by keeping his cash idle in his till beyond what is wanted for daily purposes.

The absence or the paucity of bankers' deposits robs the central bank of a part of its gain, as the bank always lends the principal part of the reserves of the bankers on deposit in the central bank. Suppose the business department of the Bank of Japan holds more than two-fifths of its liabilities in cash, then a banker's instinct of self-interest must have told the bank to lend three-fifths of its deposits and retain only two-fifths. If the deposits are large, the accrued interest must amount to a considerable sum. These deposits would tend to increase as commerce itself increases.

Only when the bankers keep their cash reserves in their own tills—which is very unlikely—does the absence or paucity of bankers' deposits at the central bank become an advantage; for then it diminishes the chances and the disasters of a "run" upon the central bank.

2. The weakness lies in keeping much of the reserve funds in Government bonds, which renders the second line of defence dependent upon political conditions. This weakness is more pronounced when the bank is under the thumb of the authorities, as is the Bank of Japan.

In extraordinary times the bank's reserve funds accumulated in ordinary times are to be used, and used quickly, to dissipate any internal discredit arising from the suspicion that the bank has no money; and to dissipate it the bank must show that it has money and employs it for the public benefit, in order that the public may know that the bank has it. If the political conditions be such that the Government bonds cannot be turned into immediate cash, then the bank will have to swell the volume of fiduciary issue, which indicates in itself that the reserve funds are useless.

It may be argued that a central bank stands or falls with the

country. This is true, but a country never falls; more likely it is the Government that falls, in which case another Government will take its place. The duty of a central bank is to avert the financial calamity which may drag a Government to its fall. Owing to various political causes Government bonds may depreciate in value, and if this occurs the credit of the bank which ties up its reserve funds or a large part thereof in the bonds may be at stake, and panic may arise.

The worst of all panics is that which is caused by political instability and the suspicion of the insolvency of the State.

Usually at first this incipient panic is nothing more than a kind of vague rumour; then more people talk about it, and still more think, and every day the panic grows. This floating suspicion becomes more diffused and more intense until it attacks all the banks, but mostly those which hold a large amount of Government bonds. The full impact will strike the central institution, which has the most money and holds the gold reserve. "Auxiliary dealers" in credit will group themselves about the bank and will multiply in number, most of whom the bank cannot refuse, at the risk of showing that it has no money and the fear of intensifying the panic. In this way the bank may be driven beyond the safety line. Under such circumstances the panic is not a banking problem but a mercantile one; hence a second line of defence, and a third and fourth, and so on, are necessary.

The ultimate purpose of the reserve funds is not for show nor for paying fine dividends, etc., but for certain essential purposes; the principal one being to maintain and increase confidence and to meet the demand for cash caused by alarm. If a reserve fund cannot, by any means, be turned immediately or after reasonable delay into cash, that reserve fund defeats its purpose.

In time of panic the ordinary banks have to fall back on the central bank; similarly and ultimately the central bank has to fall back on the Government. But if the Government has no strength to sustain it—what then? The argument that the bank could strengthen itself by selling Government bonds and securities in its holding and by refusing to discount is next to nonsense, as it cannot sell bonds or securities in time of panic; nobody will buy them. Besides, if it does not discount equivalent bills, the bills already discounted will not be paid. Consequently a second line of defence is necessary.

3. The bank had played only a small part in increasing the available supply of loanable capital in normal times, although on certain special occasions it contributed heavily to the liquid

funds of the market by making advances and rendering valuable aid to the other official banks from time to time. Nevertheless the amount of its loans to the ordinary banks and to individuals in ordinary times is comparatively small. This fact accounts for its weakness and lack of power to control credit contraction as well as expansion, and to curb speculation in time of excited trade. It is obvious that a central bank in other countries usually makes large advances to the outside market in normal times, from which it derives its power to control effectively the expansion and contraction of credit in time of boom and slump by restricting its loans and thereby checking speculation.

The Bank of Japan has never been able to perform this vital duty, yet it is expected to advance funds freely to the money market in time of financial crisis, which puts more or less of a dangerous strain on the limit of its note issue. One glaring example is seen during the panic in 1927 occasioned by the failure of a great concern called Suzuki, the impact of which closed the doors of the Bank of Taiwan (Formosa). The central bank found itself in an anomalous position. The general conviction is that the central bank is close behind all the banks, chiefly the official or semi-official banks, and will help them when wanted. Yet the Bank of Japan was powerless to restrict the undue extension of credit allowed by the Taiwan Bank and was obliged to come to the aid of that bank in trouble, as nobody ever had an idea of putting the Bank of Taiwan into liquidation, for that would mean disaster for the colony of Formosa.

4. Another failure of the bank is the control of the rate of interest. When established it was generally expected that it would take steps to bring down the rate of interest. The bank was only partially successful in preventing the rate of interest from mounting to sky level in times of crisis, but so far it has failed in reducing the rate to a normal level, nor can it prevent the variation of rates in different financial centres. It is true that there are many causes which bring about these undesirable results, but the weakness of the central bank is certainly the principal cause ; for the bank has failed to exercise its control in the money market and never constitutes itself as the hub of the wheel of finance.

5. An anomaly exists in the bank rate. Contrary to the custom in Europe, where bank rate is the maximum rate, the Bank of Japan rate is the minimum and lower than the market rates. This points to another weakness. The reader may ask why in that case the borrowers do not flock to the bank for loans

instead of submitting to a higher rate at an ordinary bank. The reasons are, first, that the commercial bills accepted for discount at the bank must have two or three endorsements or one with collateral security, an obligation imposed by law, which restricts the bank to rediscounting bills from other banks. Secondly, the power of the Minister of Finance is absolute in limiting the amount of the bank's loans, which is another restricting influence. In the main, the bank appears to relegate itself to a subsidiary place in the money market, and is active only in currency control, in the conduct of the financial business of the Government and in serving as a last resort in time of emergency. Perhaps it has never been intended to provide the money market with liquid funds in normal times, hence its rate is simply a nominal and not a controlling one, like that of European central banks.

The rise in bank rate acts immediately on the trade of the country. Prices fall and in consequence imports are reduced, exports are increased and foreign capital flows into the country; but these results cannot be obtained so long as the market rates rest unaffected by the bank rate, and as long as the commercial banks do not respond to the demands of the central bank but continue to expand or contract credit at will.

The management of the money market is the vital duty of a central bank, because periods of internal panic and external demand for bullion commonly occur together. When the foreign drain empties the bank's vault, that emptiness and the resulting rise in bank rate tend to frighten the market. The bank has therefore to treat two opposing maladies at the same time; one requiring contraction and the other expansion of credit. Formerly, the remedy for this composite disease was not discovered, but nowadays a patent medicine is applied which goes to cure first the foreign drain by raising the rate of interest as high as possible. The lowering of the temperature of the foreign drain will also allay the domestic alarm. Though the medicine is available, the greatest delicacy and the finest skill are needed in applying it. However, most necessary of all is the authority to stop all interference from other banks. This authority is lacking in the Bank of Japan.

It was hoped that with the existence of a central bank a system of note issue would be satisfactorily obtained. This tends to show that the questions of banking had received so little thought in comparison with the question of currency, that the duty of the Bank in time of panic was put on the wrong ground.

"For more than fifty years—from 1793 to 1844—there was

a keen controversy as to the public duties of the Bank [Bank of England]. It was said to be the 'manager' of the paper currency, and on that account many expected much good from it; others said it did great harm; others again that it could do neither good nor harm. But for the whole period there was an incessant and fierce discussion. That discussion was terminated by the Act of 1844. By that Act the currency manages itself; the entire working is automatic. The Bank of England plainly does not manage—cannot even be said to manage—the currency any more . . . it was inferred by many that the Bank had no responsibility."—(Bagehot, 1873.)

If England was in such a state, Japan at that time could hardly be much wiser. However, Japan made her bank manage the currency, but only the currency and nothing else.

The year 1897 gave the Bank of Japan a good test. When the country adopted the gold standard, the country came within an ace of perilous inflation. Since the use of cheques had not yet developed to any extent in Japan, the greater part of the bank's business was done through its notes, swelling the issue until the proportion of the security to the total reserve reached a dangerous limit, when it became evident that a free gold market would be impossible to maintain. The lack of large gold reserve necessary for the immense amount of note issue was the cause. The Russo-Japanese War caused a serious drain on the Treasury, which was obliged to borrow heavily from the bank, swelling the issue of notes beyond the legal limit. Happily the World War came to the rescue, and Japan acquired an enormous amount of specie reserve at home and abroad consequent upon her exports to the allies.

Unfortunately the economic trouble in 1918 and the earthquake of 1923 again put a strain on the specie holdings, hence a rise in the security issue, until a free gold market could not be maintained. The notes lost their character of convertibility. Although the situation was exceptional and occasioned by exceptional circumstances, inasmuch as the Government was obliged to borrow heavily for reconstruction work, it is nevertheless a proof that the bank was unable to cope with the emergency. The explanation lies in its inability to control the extension of credit by other banks in normal times, and in its liability to be called to the help of other banks by making huge advances in time of emergency.

The rigorous test of the efficacy of a central bank lies more in the part it is able to play in times of stress than in normal periods; and the history of the Bank of Japan bears out the

truth that unless a central bank can control the creation of credit, it is impossible for it to regulate satisfactorily its note issue.

The present system is rather defective and great efforts are needed before the system of the bank becomes what it ought to be.

But pertaining to Japan one peculiarity must always be emphasised to foreigners: it is, as the writer has previously pointed out, that a bad system could yield good results because of the excellent agents. The Japanese people preferred to break the law to obtain good results rather than to change the system. Similarly the English people broke Peel's Act three times to get good results, but resisted changing the constitution of the Bank of England.

Periodically a new governor of the bank comes and goes; but no one had thought of remedying these weak points until recently, when Mr. Seihin Ikeda, a man of great talent and wide knowledge, was requested to take the governorship of the bank by the Minister of Finance, Mr. Toyotaro Yuki. Mr. Ikeda must have premeditated for a long time a reform of the bank's organisation, because when he took up the administration of the bank he at once submitted an amendment to the Bank of Japan Act with a view to reinforcing its strength and in remedying its weak points.

The reform proposed by Mr. Ikeda is the abandonment of the former practice of confining operations to the selling of Government bonds. The bank will henceforth both buy and sell these securities—an open market operation—with a view to controlling credit and also to preventing the tightness of money from becoming the tendency at times. He also submitted an amendment to the Bank of Japan Act, Articles 11 and 12 (see Appendix), which limits the scope of activities of the bank. The new governor is of the opinion that the bank's operations should not be confined only to commercial financing, but should be extended to financing accepted industries so as to increase the number of eligible securities for loans.

CHAPTER XI

Yokohama Specie Bank

To understand the form and functions of this bank one has to study the exchange problems of the country. But to follow the details of the intricacies of the exchange system in Japan is hardly within the scope of this book. The mechanism of this subject as well as the policy thereof have been, however, adequately and admirably described in the book entitled *Problems of the Japanese Exchange*, by Yunnosuke Inouye, which the writer has no hesitation in recommending to any reader particularly interested in this matter. For the present discussion there is reason, however, for a passing glance at the foreign exchange situation and the method of dealing with it, in order to throw some light on the formation and workings of the Yokohama Specie Bank.

Moreover, some historical outline of foreign trade may be necessary to serve as a guide to the position of foreign exchange in Japan, but the theory of money and prices and also of international payments will be avoided as far as possible.

Let it be emphasised from the outset that all the trade is effected through transactions between individuals in terms of money. "In the ordinary course of business no conscious exchange of goods for goods exists. Sales of goods or payments for service are all liquidated in terms of money. By money we mean the current funds, what the business man regards as cash. This cash is remitted from country to country in actual operation of foreign trade."—(Taussig.)

In ancient Japan, as mentioned in the preceding chapters, foreign trade was carried on by foreign merchants who came with their goods and went with Japanese products, and by means of foreign money which the foreign merchants brought with them to facilitate transactions. This created a necessity for money exchange—to convert foreign coins which were widely used and permitted free circulation within the confines

of the treaty ports. When the volume of foreign trade increased, the business of money called for expansion; hence exchange houses were organised. One of these exchange houses was established in Yokohama during the Tokugawa period, called the Exchange Company. This company paved the way for the Yokohama Specie Bank, which still retains the name of the place of origin.

Money changing was not, however, the sole purpose of the Exchange Company, because foreign trade had caused an inflow and outflow of specie, both of which came to affect the prices and money incomes of Japan, being the inevitable result of commerce.

The inflow of specie caused prices and money wages to rise and the outflow caused them to fall. The impact of the tide of specie acted forcibly on the monetary market of Japan, all the more so when foreign trade expanded to considerable proportions, as in the later part of Tokugawa period.

No country can afford to overlook the importance of this impact. The mechanism of foreign trade thereupon brought about in reality the connection of prices with specie movements; that is to say, commodity prices became sensitive to and dominated by the inflow and outflow of specie.

It was hoped that the Exchange Company might manipulate exchanges and also supply the market with funds when necessary. But it did not prove able to play the part for which it was cast.

The Government of Japan in the Meiji era showed its wisdom in taking the matter of foreign exchange in hand, and the Yokohama Specie Bank (Y.S.B.) was created in 1880 in accordance with the policy of Marquis Okubo, then Minister of Finance, with the sole purpose of controlling the movement of specie and facilitating foreign trade. At that time the Bank of Japan had not come into being.

Even well before 1880 the urgent necessity for the Government to control foreign exchange made itself felt, but at that time the Japanese people were too inexperienced in this kind of work. Accordingly, up to 1880 the work was left in the hands of the foreign exchange bankers, which, it was hoped, would afford a good lesson and a practical example to the people.

The success of the Y.S.B. has proved that the Japanese people have a genius for adaptation and a will to learn. At first it is necessary to imitate and afterwards to create. A Siamese adage says: "Why should the ignorant be ashamed to ask a teacher?" The Japanese people, without losing their own

pride, had acquired knowledge from foreign teachers to their best advantage. They have the patience to watch and wait and in the meantime to study, until they are capable of doing great things. The Y.S.B. showed that the Nipponese lost no time in equipping themselves for the intricacies of the task.

Before 1880 the form of medium of exchange which bulked largest was paper money in the shape of Government notes; but bank deposits had already revealed their significance and had come to constitute another form of medium of exchange.

First, as the course of prices became sensitive to the international movement of specie and manifested signs of being determined by that movement; and second, as bank deposits and not Government notes were the medium of exchange most sensitive to the specie movement, the necessity arose for the Government to control the bank deposits. At that time, prior to the establishment of the Y.S.B., no native banks played any significant part in foreign trade, nor did their bank deposits attain any extent of importance. But there existed many branches of foreign banks chiefly engaged in foreign exchange. The Government was not in the position, however, to control all these banks. Consequently, as a stabilising factor with the ultimate aim of controlling specie movements and of providing a source of supply of funds to which other organisations could turn for cash, the Y.S.B. was created.

Another reason was that in 1880 there came a great depreciation of currency and violent fluctuation of the exchange rates, which gravely threatened the economic well-being of the entire nation. By this time some knowledge had been acquired by certain Japanese through co-operating with the foreign banks; so the Government at once decided upon the creation of an institution specially for the purpose of controlling specie movements and manipulating foreign exchange in order to bring the work under official surveillance. The Y.S.B. being chiefly engaged in international trade might accumulate specie holdings which would fluctuate with the conditions of international payments—the foreign influx or the foreign drain. The bank, then, according to the extent of its specie reserve, might make it easy for other exchange banks to maintain or replenish their cash. In the absence of a central institution the bank might use its rate of discount in bill accommodation as a means of regulating loans, so as to control thereby bank deposits and the command of cash. Its discount rate, moreover, would serve to regulate the general discount market. The establishment of the Y.S.B. would supply the missing link and thereupon the connection would be closed

between the inflow and outflow of specie, the bank discount rates, the expansion or restriction of loans and deposits, the temper and spirit of the business community and the trend towards rising or falling prices.

The Yokohama Specie Bank (Yokohama Shökin Ginko) was therefore founded in 1880 with these ends in view. The bank opened business on February 28 of the thirteenth year of Meiji. The capital stock was originally fixed at 3 million yen.

In order to strengthen the institution, to maintain the public confidence and to provide the bank with ample funds for discounting bills, the Government assisted the bank by various means, such as subscribing one-third of its capital, placing with the bank several million yen of the Treasury Reserve Fund. When the Bank of Japan was established (1882) this liberal support was withdrawn, but the Government imposed on the Bank of Japan a loan to the Y.S.B. of 20 million yen at 2 per cent. interest.

In the bank's career various obstacles due to lack of experience presented themselves in the beginning, but the bank's officials were not discouraged, nor was the Government. Everyone hoped for the best. In spite of all the impediments in its path the business of the bank increased year after year, and the bank gradually commenced to manage foreign exchange. Branch offices were then established in Lyons (1882), in London (1884), and in San Francisco (1886). Until 1887 the institution showed some efficiency, resulting in a rapid increase of the bank's business which called for an augmentation of its capital. An imperial ordinance was then promulgated regulating the business of the bank after the model of the chartered banks of Europe and America and the capital of the bank was accordingly raised for the first time in 1887 to 6 million yen.

The conclusion of the Sino-Japanese War (1894-5), ending in the ultimate victory of Japan, enabled the Empire to occupy an important position in the world. The scope of activity of the bank naturally widened. In the following year (1896) the bank was further strengthened by an increase of capital to 12 million yen. The bank was entrusted with the duty of collecting from the Chinese Government the war indemnity. The bank, in order to cope with the industrial and commercial development after the war, contributed a great part towards the introduction of a large amount of foreign capital and also did its utmost in promoting trade with China. Thus the business of the bank was constantly enlarged, and in 1899 the capital was increased for the third time to 24 million yen.

During the period of the Russo-Japanese War (1904-5) the bank was entrusted with the work of the flotation of Government loans in foreign markets. In 1911 the capital was increased for the fourth time to 48 million yen, and again in 1919 to the present amount of 100 million yen.

Notwithstanding the various financial troubles which occurred in Japan after the World War, such as the crisis of 1920, the earthquake of 1923 and the monetary débâcle of 1927, the bank with its large amount of capital and reserve has weathered every monetary tempest.

In 1920 the bank's capital was all paid up. The reserve of the bank in that year already exceeded the amount of its capital. In 1930 the bank celebrated the fiftieth anniversary of its foundation. It now has forty-two branches situated in the principal business centres all over the world, and the public confidence in the bank is growing stronger every year.

The bank's balance sheet in 1936 will be found on pages 163-5.

The Charter authorised the bank :

1. To deal in home and foreign exchange.

2. To make loans.

3. To receive deposits of money and to accept for safe custody articles of value.

4. To discount and collect bills of exchange, promissory notes and other securities.

5. To act as money-changer.

The bank may also buy and sell Government bonds, gold and silver coin and bullion. It is also entrusted with all matters relating to Government foreign loans and with the management of Government money for international account. It occupies, in fact, a very important position *vis-à-vis* the State.

The bank also became a member of the great international financial consortium which has been formed in Europe and America for the furnishing of loan funds to the Chinese Government.

In addition, the Y.S.B. was authorised to issue notes convertible into silver coins and afterwards into gold coins and into the Bank of Japan's notes in the leased territory of Kwangtung in China and the South Manchuria Railway Zone, but the issue is now stopped and taken over by the Bank of Chosen. (The item " Notes in Circulation " in the balance sheet means outstanding notes.)

From 1887 and during a subsequent period of thirty years the bank steadily pursued its course as an exchange bank side by side with the foreign institutions and gradually succeeded in superseding the latter until a greater part of the country's foreign trade was financed through it.

By virtue of the Government's protection and support and the strict supervision over the bank's operations, it was prevented from degenerating into a private organisation liable to be corrupted by vested interests. Hence the history of this bank reveals one of the great achievements on the part of the Japanese people, and through it the Government was able to regulate and develop to a great extent the nation's foreign trade.

All students of finance are apt to be struck by the peculiar parallelism of the Y.S.B. and the Bank of Japan. The correlation between these two banks has been always close and intimate, until the former has finally come to assume the rôle of the latter's agent in almost all financial operations.

As previously mentioned, the Bank of Japan was required by the Government to grant a loan of 20 million to the Y.S.B. at the very low rate of interest of 2 per cent. Since the former bank's interest has been welded together with the welfare of the latter in this way, the Bank of Japan is always obliged to back up the Y.S.B. and to come to its rescue in time of stress; hence various further loans have been accorded at an advantageously low rate of interest from time to time. Apart from this, the Bank of Japan always rediscounts such an enormous quantity of its bills that nearly all the foreign bills held by the Bank of Japan come from the Y.S.B. and form the most important part of the central bank's assets.

"Up to 1919, when the bank acceptance and discount market first appeared in Japan, the only way in which the exchange bank could dispose of its bills in an emergency was by taking them to the Bank of Japan."—(A. C. Allan.) And he explained further that the funds of the ordinary banks were not available for this purpose.

During the Meiji era domestic trade made great advances, the financing of which absorbed all the funds of the existing ordinary banks to such an extent that they could not venture into international commerce but confined themselves to financing national trade.

During the World War, when the currencies of belligerent countries were topsy-turvy, every nation imposed an embargo on gold export, with the result that the money market

THE YOKOHAMA SPECIE BANK LIMITED

(Yokohama Shökin Ginko)

114TH HALF-YEARLY ORDINARY GENERAL MEETING,
MARCH 10, 1937

	Yen
Capital Subscribed and Fully Paid	100,000,000
Reserve Fund	132,650,000

Directors

Toshikata Okubo, *President*
Yakichi Suitsui, *Vice-President*
Baron Koyata Iwasaki.
Baron Ichizaemon Morimura
Reitaro Ichinomiya
Kenji Kodama
Kimpei Takeuchi
Kunizo Mogami
Hideshige Kashiwagi
Kaniji Yano
Nori Watanabe

Report to the Shareholders

Gentlemen,

The Directors submit to you the annexed Statement of the Liabilities and Assets of the Bank, and of the Profit and Loss Account for the Half-Year, ending December 31, 1936.

The Net Profit of the Bank for the past Half-Year, after providing for all Bad and Doubtful Debts, Rebate on Bills, etc., shows Yen 17,458,919·91 inclusive of Yen 10,446,651·83 brought forward from last Account.

The Directors propose that Yen 1,750,000·00 be added to the Reserve Fund, and recommend a Dividend at the rate of Ten per cent. per annum, which will absorb Yen 5,000,000·00.

The Balance, Yen 10,708,919·91, will be carried forward to the credit of next Account.

TOSHIKATA OKUBO,
Chairman.

Head Office, Yokohama.
March 10, 1937.

GENERAL BALANCE.

LIABILITIES

	Yen
Capital	100,000,000·00
Reserve Fund	130,900,000·00
Reserve for Doubtful Debts	3,653,917·31
Notes in Circulation	1,242,326·17
Deposits (Current, Fixed, etc.)	599,001,304·55
Bills Payable, Bills Rediscounted, Acceptances and other Sums due by the Bank	685,774,359·6
Dividends Unclaimed	1,980·00
Balance of Profit and Loss brought forward from last Account	10,446,651·83
Net Profit for the past Half-Year	7,012,268·83
Yen	1,538,032,807·54

PROFIT AND

Dr.	Yen
To Reserve Fund	1,750,000·00
To Dividend :	
Yen 5·00 per Share for 1,000,000 Shares ...	5,000,000·00
To Balance carried forward to next Account ...	10,708,919·91
Yen	17,458,919·91

We have examined the above Accounts in detail, comparing them with the Books and Vouchers of the Bank and the Returns from the Branches, and have found them correct. We have further verified

December 31, 1936

ASSETS

	Yen	Yen
Cash Account :		
In Hand	16,010,099·33	
At Bankers	50,164,472·09	
		66,174,571·42
Investments in Public Securities and Debentures		411,261,420·78
Bills Discounted, Loans, Advances, etc.		385,911,979·80
Bills Receivable and other Sums due to the Bank		650,727,885·86
Bullion and Foreign Money		3,864,015·42
Bank's Premises, Properties, Furniture, etc. ...		20,092,934·26
	Yen	1,538,032,807·54

LOSS ACCOUNT

	Cr. Yen
By Balance brought forward June 30, 1936 ...	10,446,651·83
By Net Profit for the Half-Year ending December 31, 1936 (after making Provision for Bad and Doubtful Debts, Rebate on Bills, etc.)	7,012,268·08
Yen	17,458,919·91

the Securities, etc., of the Bank, and also those held on account of Loans, Advances, etc., and have found them all to be in accordance with the Books and Accounts of the Bank.

Auditors { Takuma Sugi
Nobujiro Otsuka
Marquis Nakahiro Ikeda
Isaburo Nishimaki

experienced a great shortage of the medium of foreign exchange. This period brought to light the weakness of the Y.S.B. in the way of handling its funds. The most favourable balance of payments experienced by Japan during the war, on account of the great excess of exports over imports, brought to the bank an enormous amount of foreign bills which the bank could not entirely dispose of. The difficulty was not overcome until the central bank extended its note issue in order to come to its aid.

To make clear the weakness of the organisation, we have to turn our eyes to the exchange policy of the Government of that time.

The adverse balance of trade had been a stumbling-block to Japan for a long time back. Although this difficulty was accidentally surmounted from time to time, no permanent remedy was so far discovered until, finally, a large balance had to be kept abroad for meeting foreign bills.

Since the adoption of the gold standard in 1897 and owing to the high proportion of the security reserve of the note issue, the Bank of Japan encountered great difficulty in maintaining intact its specie reserve. For that reason the war indemnity paid by China in gold as a result of the Sino-Japanese War was kept in London in sterling for foreign balances, and the proceeds of the foreign loans raised during the Russo-Japanese War were also added to that reserve.

The reasons for keeping all this money abroad can be attributed to the following :

1. The need to prevent exchange fluctuation which may be detrimental to the value of the yen, to which Japan was exposed for various political as well as economic reasons.

2. The obligation to meet the heavy payments abroad on Government accounts, partly for the purchase of armaments and partly for the interest charges on foreign loans.

3. The desire to offset the weakness of the central bank's power to control the money market and to render efficacious the bank rate in order to protect its reserve.

4. The realisation that the distance between Japan and other financial centres, London and New York for instance, greatly retarded the readjustment of the exchange by means of specie shipments.

5. The fact that the chief export of Japan at that time was raw silk, the price of which fluctuated considerably according to the variations of demand.

The combination of all these dilemmas prompted the central bank to adopt the policy of keeping a large foreign balance abroad. At the time of writing the Bank of Japan has decided to export gold to the amount of 120 million yen a year for exchange funds.

Continually the problem of balances abroad was Japan's nightmare and their maintenance now and again presented an alarming difficulty.

In 1914, just before the World War broke out, the funds were drained to the danger point, until Japan was practically at the end of her resources. Luckily the Great War came to her rescue, with a great increase of funds owing to the excess of exports over imports.

Mr. Allan affirmed that during the war Japan was able to accumulate her cash abroad to such an extent that she could defy the slump after 1920, which obliged the great financial powers like England and the U.S.A. to resort to the painful policy of deflation. This country could easily maintain her exchange at par. As a matter of fact the value of the yen abroad was kept up even above its value at home.

However, this policy was not in keeping with the interests of the nation and was haphazardly pursued, owing to lack of experience more than anything else. We shall come back to this later on.

The earthquake of 1923 caused another tremendous drain on these funds as they had to be used in the purchase of materials for reconstruction, until the funds ran dry again. The consequence was that the Y.S.B. was unable to maintain the exchange rate. In December 1923 the external value of the yen began its slide, until it was even with the internal value, and even went still further downwards. The Government had to take a deflationary measure in 1925 to prevent further decline and to restore it to par value. The consequence of this was the financial crisis, with the bankruptcies of great firms like Takada, Kuhara and Suzuki.

This book is not intended as an annal of money and banking of Japan, as that would disappoint the reader who is in quest of more information on this subject than mere historical record. Since the history of the Y.S.B. is closely connected with foreign exchange, which in its turn depends upon foreign trade, we cannot help touching upon both. Further, the import and export trade has been a nightmare to Japan ever since she entered upon her career of international exchange, and the balance of trade, which hangs over her like the sword of Damocles, has been

worrying and still worries the Japanese statesmen of every epoch.

"To tell the rise of foreign trade of Japan is to describe an achievement second to none in the annals of commercial history."—(Spalding.)

For ages this country contented herself with hermit-like isolation in the midst of the tumultuous awakening of other nations of the world. She shut herself off from intercourse with the West; her foreign trade was negligible, being chiefly with China and Korea, and carried on by a few Chinese, Dutch, Portuguese and Spanish men of fortune. The people seemed passively to resign themselves to the mediocrity of the self-sufficiency of a hermit nation. But this blessed state was not destined to last, for she was bumped out of it with a rude shock.

Roughly awakened by an occurrence so simple and so sudden, the people were stunned with surprise. In the year 1854 Commodore Perry's fleet dropped anchor in the Bay of Uraga. What followed was indeed a marvel. The inertia of the people vanished as if by a divine touch. Both the rulers and the ruled with one convulsive effort shook themselves free from the Oriental lethargy. The latent energy of the Japanese merchants and traders, together with mother-wit and inborn intelligence, forced the island empire out of seclusion.

Professor Spalding states that by the year 1858 no less than five commercial treaties with the Western Powers had been concluded and five treaty ports opened; others quickly followed suit. Very soon the number of treaty ports reached forty-four.

Along with the commercial awakening the social and economic conditions of the State underwent incredible changes. All these happenings are reflected in the growth of the country's foreign trade. The reader has only to take a passing look at the book *Japan's Advance*, by Dr. Scherer, to be convinced of the speed with which Japanese business has been developed. Here are some figures which speak for themselves:

In 1867 the total value of imports and exports was only 26,246,545 yen, but in 1880 it mounted to 131,160,744. The Sino-Japanese War of 1894-5 gave it further impetus. In 1897 the figures reached the enormous amount of 382,435,849. It trebled after the war with Russia in 1907; and a value of 926,880,219 was registered. Seven years later (in 1914) the volume of the import and export trade totalled 1,186,837,186, while in 1922 the amount was 3,527,761,000. The table below shows the trade returns from 1897:

Year	Exports	Imports	Total (in Y1,000)	Excess of Imports over Exports
1897 ..	163,135	219,300	382,435	56,165
1898 ..	165,753	277,502	443,255	111,748
1899 ..	214,929	220,401	435,331	5,472
1900 ..	204,429	287,261	491,691	82,831
1901 ..	252,349	255,816	508,166	3,467
1902 ..	258,303	271,731	530,034	13,428
1903 ..	289,502	317,135	606,637	27,633
1904 ..	319,260	371,360	690,621	52,099
1905 ..	321,533	488,538	810,071	167,004
1906 ..	423,754	418,784	842,539	4,970*
1907 ..	432,412	494,467	926,880	62,054
1908 ..	378,245	436,257	814,503	58,011
1909 ..	413,112	394,198	807,311	18,913*
1910 ..	458,428	464,233	922,622	5,804
1911 ..	447,433	513,805	961,239	66,371
1912 ..	526,981	618,992	1,145,974	92,010
1913 ..	632,460	729,431	1,361,891	96,971
1914 ..	591,101	595,735	1,186,837	4,634
1915 ..	708,306	532,449	1,240,756	175,857*
1916 ..	1,127,468	756,427	1,883,896	371,040*
1917 ..	1,603,005	1,035,811	2,638,816	567,139*
1918 ..	1,962,100	1,668,143	3,630,816	293,956*
1919 ..	2,098,872	2,173,459	4,272,332	174,587
1920 ..	1,948,394	2,336,174	4,284,569	387,780
1921 ..	1,252,837	1,614,154	2,866,992	361,317
1922 ..	1,637,451	1,890,308	3,527,760	252,856
1923 ..	1,447,750	1,982,230	3,429,981	534,479
1924 ..	1,807,034	2,453,402	4,260,437	646,367
1925 ..	2,305,589	2,572,657	4,878,247	267,068
1926 ..	2,004,727	2,377,484	4,422,212	332,756
1927 ..	1,992,317	2,179,153	4,171,471	186,836
1928 ..	1,971,955	2,196,314	4,168,270	224,359
1929 ..	2,148,618	2,216,240	4,364,858	67,621
1930 ..	1,469,852	1,546,070	3,015,923	76,218
1931 ..	1,146,981	1,235,675	2,382,656	88,693
1932 ..	1,409,992	1,431,461	2,841,452	21,469
1933 ..	1,861,045	1,917,219	3,778,265	56,174
1934 ..	2,171,924	2,282,601	4,454,526	110,677
1935 ..	2,499,072	2,472,235	4,971,307	26,837*

* Export excess.

The first era of great advance in foreign trade occurred in 1886, which seems to have coincided with the resumption of specie payments and the acquittance of the depreciated

currency. From that time Japanese commercial intercourse seems to have passed the Rubicon and immediately entered upon a period of affluence.

Up to 1890 exports had been largely confined to the surplus produce of the country. But once the monetary and banking system was adjusted, new industries were called into being. Japan commenced to import raw materials and to export various manufactured goods. Foreign trade increased by leaps and bounds, until now it exceeds the exports of the country's produce. It should be noted that the bulk of foreign trade enters or leaves Japan via Yokohama and Kobe, the two largest ports of the important thirty-seven with which Japan is blessed ; and Yokohama handles about 45 per cent. of the total. In fact, Yokohama was the forerunner of all the modern ports of the country, owing to the east-bound intercourse with the U.S.A., the South American countries and Hawaii. This is another reason why the Y.S.B. was established at this port.

The domestic trade of Japan is fairly well financed by the central bank and the principal native banking institutions, while the international trade is chiefly served by the Y.S.B. Nevertheless, there is much scope for the activities of several European and American branch banks. Among the important foreign banks established in the principal ports of Japan are the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, Australia and China, the National City Bank of New York, the Banque Franco-Japonaise, the Nederlandsche Handel Maatschappij, the Nederlandsch Indische Handels-bank and the Bank of China. The combined activity of the Japanese banks and their foreign colleagues is responsible for an enormous bill business ; an idea of this may be gained from the bill clearings of all the clearing-houses in Japan, which in 1936 reached the figure of 42,940,000 with an aggregate value of 69,855,000,000 yen.

As the trade and industry of this rising Empire made its great advance there was an ever-increasing demand for all forms of capital and accommodation. This resulted in high rates of interest charged for the use of money, though the Government's policy was directed towards cheap money and a low rate of interest. In spite of the high rate, which is undoubtedly a drawback to commercial development, trade and industry flourished, owing to the iron will of the people and a determination to progress in the face of all obstacles.

The legal rate of interest in Japan was 5 per cent., but owing to the lack of usury laws any rate of interest was contracted,

and as much as 12 per cent. was charged on some transactions with only a reasonable risk.

On the average the following rates were in force throughout the country: On loans the highest rate was 10·8 per cent., lowest 7 per cent., average 8·3 per cent. On overdrafts the highest was 9·7 per cent., lowest 6·5 per cent., and average 7·7 per cent. On bill discounting the highest rate was 9·6 per cent., lowest 6·6 per cent., and average 7·8 per cent.

Cheaper capital was however obtainable in special cases at the Bank of Japan, where on loans the highest rate was 8 per cent., lowest 5·5 per cent., average 6·4 per cent.; on overdrafts the highest rate was 7·7 per cent., lowest 6·2 per cent., average 6·5 per cent.; on bill discounting the highest rate was 6·6 per cent., lowest 5·1 per cent., and average 5·4 per cent.

In Europe and America such a high rate would be a serious drawback to trade, but judging from the commercial progress which Japan made during the last decade we cannot but conclude that this country does not seem to have been handicapped by the cost of funds. This point Professor Spalding attributed to the lower Eastern standard of living which, he says, counteracted the adverse effects of dear money. The learned economist's deduction is partly true and partly only, because there had been another factor which counteracted the high rate, that is the low cost of motive power. Electric current is available throughout the country at a surprisingly low charge.

Only recently was the rate of interest scaled down somewhat, owing partly to the world depression and partly to the Capital Flight Prevention Law.

The tables on pages 172-4 show the different rates of interest which prevailed in different periods up to 1936.

After the return to the gold standard in January 1930 the outflow of capital from the country started, due to easy money, until in 1931 it began to assume an alarming proportion. When Great Britain went off the gold standard in 1931, speculation in currency became rife, as the devaluation of the yen was generally anticipated and the purchase of foreign currency went on at a rapid rate, resulting in considerable shipments of gold abroad. The Government was obliged to resume an embargo on the export of gold in December 1931. The consequence was the depreciation of the yen. With the commencement of 1932 the speculation in foreign currency slowed down considerably, but owing to the sharp decline of Japanese bonds in foreign markets an active investment in foreign securities took place, causing a

INTEREST RATES ON DEPOSITS

Fixed by the Agreement of Tokyo Associated Banks (April 10, 1936)

	"A" Class banks	"B" Class banks
Fixed deposits	Less than 3·3 per cent. per annum	Less than 3·6 per cent. per annum
Current account	Less than 1 rin per diem	Less than 2 rin per diem
Special current account	Less than 5 rin per diem	Less than 6 rin per diem
Deposits at notice	Less than 6 rin per diem	Less than 7 rin per diem
Other deposits	Less than 6 rin per diem	Less than 7 rin per diem

INTEREST RATES AT THE BANK OF JAPAN

Date of change	Commercial bills discount	Discount of bills with Government bonds as collateral	Discount of bills with other collateral	Overdrafts
	Per cent.	Per cent	Per cent.	Per cent.
November 19 1919	8·03	8·03	8·76	9·13
April 19 1925	7·30	7·30	8·03	8·40
October 4 1926	6·57	6·57	7·30	7·67
March 9 1927	5·84	6·21	6·57	7·30
October 10 1927	5·48	5·84	6·21	6·94
October 7 1930	5·11	5·48	5·84	6·57
October 6 1931	5·84	6·21	6·57	7·30
November 5 1931	6·57	6·94	7·30	8·03
March 12 1932	5·84	6·21	6·57	7·30
June 8 1932	5·11	5·48	5·84	6·57
August 18 1932	4·38	4·75	5·11	5·48
July 3 1933	3·65	4·02	4·38	5·11
July 3 1935	3·65	4·01	4·38	5·11
April 7 1936	3·28	3·65	4·01	4·74

10 rin = 1 sen 100 sen = 1 yen

INTEREST RATES AT THE YOKOHAMA SPECIE BANK

(Compiled by Yokohama Specie Bank)

Year	Overdrafts High	Overdrafts Low	Overdrafts Average	Discount of bills (in per cent.) High	Discount of bills Low	Discount of bills Average	Fixed deposits High	Fixed deposits Low	Fixed deposits Average	Current deposits High	Current deposits Low	Current deposits Average
1925 ...	8·9	7·3	8·5	9·6	7·3	9·1	6·0	6·0	6·0	2·2	2·2	2·2
1926 ...	8·8	7·3	8·3	9·3	7·1	9·0	6·0	6·0	6·0	2·2	2·2	2·2
1927 ...	8·1	7·2	8·1	8·6	6·6	8·5	5·5	5·5	5·5	1·8	1·8	1·8
1928 ...	7·7	6·6	7·7	8·1	5·6	7·5	5·0	5·0	5·0	1·5	1·5	1·5
1929 ...	7·7	5·8	7·3	7·7	6·6	6·7	5·0	4·5	4·5	1·5	1·1	1·7
1930 ...	7·3	6·6	6·9	6·9	6·2	6·6	4·5	4·5	4·5	1·1	1·1	1·1
1931 ...	7·3	6·2	6·9	7·7	4·0	6·7	4·7	4·2	4·3	1·1	0·7	0·9
1932 ...	7·3	6·2	6·9	6·6	5·1	6·2	4·7	4·2	4·5	1·1	0·7	0·9
1933 ...	7·6	5·1	6·0	6·3	4·3	5·6	4·2	3·7	3·9	0·7	0·7	0·7
1934 ...	6·6	4·2	5·5	6·7	3·3	5·4	3·7	3·7	3·7	0·7	0·7	0·7

AVERAGE INTEREST RATES THROUGHOUT JAPAN

Year	Loans	Overdrafts	Discount of bills (in per cent.)	Fixed deposits	Current deposits	Savings deposits
1925 ...	10·2	11·0	10·6	6·8	3·4	4·9
1926 ...	10·7	10·8	10·2	6·8	3·4	4·9
1927 ...	10·4	10·2	9·9	6·3	2·9	5·0
1928 ...	9·9	8·9	9·1	5·8	2·5	4·5
1929 ...	9·6	9·3	8·5	5·3	2·0	4·5
1930 ...	9·7	9·3	8·8	5·3	2·0	4·6
1931 ...	9·4	9·4	8·9	5·2	1·9	4·4
1932 ...	9·3	9·2	8·7	5·1	1·8	4·3
1933 ...	8·9	8·8	8·2	4·7	1·6	4·0
1934 ...	8·6	8·2	7·5	4·4	1·3	3·6

RATES OF FOREIGN EXCHANGE

Year	London (per 1 yen), s. d.			Paris (per 1 yen), Francs			Hamburg (per 1 yen), Marks		
	Highest	Lowest	Average	Highest	Lowest	Average	Highest	Lowest	Average
1925 ...	1·01·6	1·07·3	1·08·3	12·07	6·97	8·58	1·82	1·59	1·71
1926 ...	2·00·2	1·09·6	1·11·2	23·15	11·17	14·68	2·05	1·81	1·71
1927 ...	2·00·3	1·10·4	1·11·4	12·55	11·50	12·04	2·06	1·91	1·99
1928 ...	1·11·2	1·10·6	1·11·0	12·15	11·35	11·76	2·00	1·86	1·94
1929 ...	2·00·1	1·90·7	1·10·8	12·40	11·05	11·67	2·03	1·82	1·92
1930 ...	2·00·4	2·00·2	2·00·4	12·60	12·45	12·56	2·06	2·04	2·06
1931 ...	3·00·3	2·00·4	2·02·5	12·60	12·10	12·52	2·20	2·00	2·06
1932 ...	2·01·5	1·02·8	1·07·1	9·36	5·02	7·06	1·55	0·82	1·25
1933 ...	1·02·9	1·02·0	1·02·4	5·35	4·62	5·07	0·88	0·75	0·83
1934 ...	1·02·1	1·02·0	1·02·5	4·95	4·30	4·48	0·81	0·70	0·74
1935 ...	1·02·1	1·01·9	1·02·0	4·41	4·15	4·32	0·72	0·68	0·70

heavier outflow of capital. The Government therefore promulgated the Capital Flight Prevention Law in July 1932, which was in force until replaced by the Foreign Exchange Control Law of May 1933. This law also vested the Government with authority to prohibit or restrict any transactions or acts likely to create the flight of capital. The scope of measures allowed by the Law was provided in detail in the Ordinances of the Ministry of Finance.

As for the operations of financing trade, the procedure is similar to that of other countries. Shipments both to and from Japan are paid for by bills of exchange drawn under one or another form of credit in existence. The usual proceeding is in accordance with Professor Spalding's illustration in his book *Eastern Exchange Currency and Finance*, which the writer has no hesitation in recommending to the reader.

" If a merchant in the United Kingdom wishes to send goods to Japan he will see to it that his consignee in Japan opens a documentary credit through one of the Eastern banks with a branch in London, and when the shipment is ready he will present to the banker the full set of shipping documents, consisting of bill of lading in triplicate, invoice, policy and certificate of marine insurance and certificate of origin.

" Attached to this heterogeneous collection of shipping documents will be a bill of exchange (also in duplicate or triplicate) usually drawn for the invoice cost of the goods ; and if everything appears to be in order, the banker will buy the bill and send it out to his branch in Japan for presentation for acceptance and payment in due course.

" The proceeds of the bills as and when received will be utilised by the bank in Japan to purchase bills out there drawn on London for shipment to the U.K. and elsewhere in Europe and America, and what happens then is practically a reverse of the procedure for the outward shipment.

" Bills of exchange may be drawn ' documents on acceptance,' ' documents on payment ' and ' clean,' and the principal usuance is three to four months. Six months' bills are also occasionally drawn, but Eastern bankers do not like this long-dated paper."—(Spalding.)

In supplement to the above illustration there is another class of bills equally in wide use in Japan, which are called interest bills, and which differ from the ordinary bills explained above. Ordinary bills are made out in the currency of the country on which they are drawn, such as dollar bills or sterling bills, but interest bills are made out in yen and carry a fixed interest.

On the expiry of the tenure of such bill, its face value plus interest is paid in the country on which the bill is drawn at the current rate of exchange. The proceeds are then remitted to Japan. Exports to Europe and America are financed almost entirely by ordinary bills, but those to India and China and other Eastern countries by interest bills.

Mr. Inouye says that custom alone is responsible for this practice as there is no real difference between ordinary bills and interest bills ; since the interest on the latter on which exchange rate is computed must necessarily be the same as on that of ordinary bills.

" The effect of cheap money lent for the furtherance of export trade is easily understood in the case of interest bills. When, for instance, the Bank of Japan's official minimum rate is 7 per cent. and the open market rate 8 per cent., the rate of interest on interest bills is generally 6 to 7 per cent., and it cannot be any higher. Hence it follows that the interest applied to the exchange quotations is generally 6 to 7 per cent."—(Inouye.)

Now we shall come to the grim ghost which has haunted Japan day and night ever since she took up international trade. The adverse balance of commerce dogs Japan's footsteps, and to meet her obligations arising from buying more than she sells Japan has to accumulate a great amount of funds abroad. Her various loans in London, Paris and New York markets were effected to meet these obligations.

It is worth while to know how many loans Japan had contracted, the balances outstanding of which remain to be met. Table on opposite page.

The reason why the reader is given these additional details is that the international indebtedness of a country is of great importance when we come to discuss the matter of her foreign exchange ; and all the more so because the effects of the foreign loans spread over a long period.

Professor Spalding clearly explained the first effect and the after-effects of a foreign loan ; the first impact acts inversely to the subsequent repercussions to produce different effects on the lending and the borrowing country.

For instance, if Japan contracts a loan with England, the first effect on Japan would be to liquidate the whole or part of her adverse balance of payments with England. Hence the raising of a loan in London serves exactly the same purpose as if Japan has exported to England commodities equal in value to the amount of the loan. England, the creditor country, would stand in the reverse position, as if she has

AMOUNT OF THE NATIONAL DEBT RAISED, REDEEMED AND OUTSTANDING (In yen)

Financial Year	Internal Loans: Amount issued	Internal Loans: Amount redeemed	Internal Loans: Amount outstanding at the end of the Financial Year	External Loans: Amount issued	External Loans: Amount redeemed	External Loans: Amount outstanding at the end of the Financial Year
1925-6 ...	600,693,050	437,067,350	3,519,864,225	—	27,462,595	1,479,312,135
1926-7 ...	537,588,725	346,876,625	3,710,576,325	—	18,122,243	1,461,189,892
1927-8 ...	742,749,325	508,582,175	3,944,473,475	—	7,796,785	1,453,393,107
1928-9 ...	689,146,350	253,649,800	4,379,965,700	—	2,097,749	1,451,295,357
1929-30 ...	558,942,975	426,300,400	4,512,608,275	—	4,446,545	1,446,848,812
1930-1 ...	265,608,800	301,424,775	4,476,792,300	264,463,500	232,287,852	1,479,024,460
1931-2 ...	457,583,700	219,297,800	4,715,078,200	—	6,445,186	1,472,579,274
1932-3 ...	1,096,744,000	148,068,225	5,663,753,975	—	82,137,698	1,390,441,577
1933-4 ...	1,066,062,000	5,375,850	6,724,440,125	39,052,000	14,895,310	1,414,598,267
1934-5 ...	1,063,126,950	100,056,325	7,687,510,750	—	11,654,994	1,402,943,272

Financial Year	Grand Total: Amount issued	Grand Total: Amount redeemed	Grand Total: Amount outstanding at the end of the Financial Year	Grand Total: Increase (+) or Decrease (−) of amount outstanding compared with the preceding year	Grand Total: Debt per head
1925-6 ...	600,693,050	464,529,945	4,999,176,360	+ 669,443,180	57·803
1926-7 ...	537,588,725	364,998,868	5,171,766,216	+ 172,589,856	58·945
1927-8 ...	742,479,325	516,378,960	5,397,866,581	+ 226,100,365	60·739
1928-9 ...	689,146,350	255,747,549	5,831,261,057	+ 433,394,475	64·735
1929-30 ...	558,942,975	430,746,945	5,959,457,087	+ 128,196,030	65·263
1930-1 ...	530,072,300	533,712,627	5,955,816,760	− 3,640,327	63·716
1931-2 ...	457,583,700	225,742,986	6,187,657,474	+ 231,840,714	65·450
1932-3 ...	1,096,744,000	230,205,923	7,054,195,552	+ 866,538,077	73·409
1933-4 ...	1,105,114,000	20,271,160	8,139,038,392	+ 1,084,842,840	83·457
1934-5 ...	1,063,126,950	111,711,319	9,090,454,022	+ 951,415,630	92·355

imported commodities from Japan equal in value to the amount of the loan. The effect on the exchange will be to turn it in favour of the borrowing country and against the lending country.

This is of course only the immediate impact; the subsequent effects will be just the opposite, as the after effects act in the reverse way. When Japan contracts a loan she has to pay interest, and the interest payments, which spread over a long period (forty to ninety years), are more important still to the two countries than the loan itself, owing to the fact that the payment of interest produces an unfavourable influence on the exchange of the borrowing country over a long period. Interest on foreign obligations is usually payable by coupons attached to the bonds. When the coupons are presented for payment, the borrowing country has to export specie, so becoming the importer of goods, and the lending country receives specie, so becoming the exporter of goods. Obviously the rôle changes from favourable to unfavourable, affecting thereby the balance of trade and *pari passu* the exchanges between the two countries. If we stick to our London-Tokyo example, the moment London exports coupons and Tokyo exports specie to meet them, the exchange rate of the yen will go against Tokyo, that is to say the yen will be worth less in the London market.

" The fact that in peace time Great Britain was able to issue so many foreign loans on the London market was one of the things which, during the war, enabled her to maintain her financial position so satisfactorily, notwithstanding her continued adverse trade balance. London is in the happy position of receiving every year large sums of money in payment of interest on these loans due to her from foreign countries; or to put it in another way, she is able continually to export coupons and these serve to reduce very considerably the balance of indebtedness against her."—(Spalding.)

To summarise the above: a loan raised in a foreign country increases the indebtedness of the lending country at the time the loan is contracted; but subsequently the interest payments increase the indebtedness of the borrowing country during the whole tenure of the loan.

Moreover, most of the Government loans are redeemable by drawings. The effect of each drawing will be similar to that occasioned by interest payment. For instance, if England be the creditor country and Japan its debtor country, England will export the drawn bonds and Japan export the remittance equal to the value of those bonds.

Obviously the first effect—when the loan is contracted—is much greater than the subsequent effects arising from interest payments and partial redemption payments, because the element of time comes to the aid of the borrowing country. It has been so with Japan, as is evidenced in her numerous loans raised abroad.

The above, which is based on Professor Spalding's exposition, might puzzle the reader who holds the usual economic notions on this subject. To some it may appear ambiguous or otherwise contradictory to the concept of foreign loans. But by a careful scrutiny of the case between Japan and foreign countries, chiefly England and the U.S.A. where loans were floated, the reader will agree with the eminent economist.

However, for the sake of clarity we may add that theoretically when country (A) borrows from country (B) funds flow from (B) to (A), but practically a very small movement of funds ever takes place. (A) very likely will use the entire amount of the funds put at its disposal by (B) in buying commodities from (B). In the case of Japan the borrowed funds are used in meeting the excess of imports, in other words to meet her adverse balance of payments, consequently and in a sense Japan gets her imports free so far as she uses the borrowed funds abroad, hence no flow—in or out—of specie, no disturbance of foreign exchanges, and so on.

Though the merchandise movements and the merchandise balance of trade are affected by the process, because merchandise exports from the lending country will increase—owing to the loan—and merchandise imports—which are bought by the borrowing country with the borrowed funds—will increase likewise, yet the balance of trade will cause no disturbance of foreign exchanges nor of flow of specie on account of the invisible credit balance in the form of borrowed funds. To say that the balance of trade becomes favourable to the lending country and unfavourable to the borrowing country—as is theoretically true—means only within the scope of the barter terms of trade—to use Professor Taussig's expression—within the sphere of merchandise only.

Another incidental effect caused by the loans is that prices and incomes will fall in the lending country and rise in the borrowing country, as in the latter an excess of imports gradually appears—a consequence of unfavourable balance of trade—but the lending country, by sending merchandise to the borrowing country, adds to the tangible equipment of the latter by giving up some of its own possessions and adding to

those of the latter country; hence the lending country incurs a loss, in that the barter terms of trade become less advantageous to it. The borrowing country thereby acquires a double gain; not only does she get an extra supply of imported goods but all the exports are exchanged on better terms also.

When interest has to be paid the result will be the opposite. Each year the interest charge grows and keeps on growing until it is equal to the principal sum; eventually it will be greater, as the loans have a long tenure.

At first the lending country makes remittance to the borrowing country—in theory only—but afterwards the intermediate stage comes in when the borrowing country has to remit until the loans are redeemed—if ever they are redeemed.

"The initial flow from the lending country is destined to be checked in any case by the changes in prices. But it will be checked the more quickly by the accruing interest charge. . . . And eventually there will be a reversal of the initial features. Specie will flow back to the lending country; its prices and money incomes will rise; the borrowing country will have falling prices and incomes; the lending country will come to have an excess of merchandise imports and the borrowing country an excess of merchandise exports."—(Taussig.)

We see, then, that at the initial stage the transactions become more favourable to the borrowing country, but later become more favourable to the lending country. However, Professor Taussig definitely asserts that there is a general offsetting tendency between the earlier and later stage and in the entire balance of this account neither country is likely to have any considerable net gain.

As previously indicated, the exchange problem has always been a Gordian knot for Japan, owing to her adverse balance of trade, a chronic disease of this country; until now a large amount of foreign loans have been raised. Now we shall observe how Japan, like Alexander, cuts the Gordian knot.

It would be unwise not to follow the admirable treatise on the exchange policy of Japan set forth by Mr. Yunnosuke Inouye, one time President of the Y.S.B., Governor of the Bank of Japan, and twice Minister of Finance. This book was ably translated by Mr. H. de Bunsen, British Vice-Consul in Tokyo (Macmillan, London), by which means the interesting lectures which compose the book are made available for those who have no knowledge of the Japanese language.

It is a well-known fact that the financial history of Japan is far from bright. The unfavourable balance of payment

continues, and on many occasions drives her to the verge of a breakdown.

By the end of 1913 the ever-increasing strain on her resources had actually reached the safety limit. She was already over head and ears in debt, and she would be obliged to borrow still further in order to meet the service of her obligations abroad. What would be the outcome of such adventure can be imagined. At that time Japan found herself between Scylla and Charybdis, or, bluntly, chased from the tiger to the crocodile.

The year 1914 came on with its gloom, but with the best of luck for Japan. The World War broke out. It spelt for Japan an era of prosperity. During the long years of misery and suffering in Europe, Japan and America were amassing gold. Both countries were transformed from debtors to creditors. Not only were their debts paid, but they became larger creditors of many millions. Japan forgot what it was to be poor.

" By the end of 1918 Japan had exported merchandise alone to a value of some 1,400 million yen above that of her imports during the war period . . . our invisible trade was no less lucrative. In 1914, for instance, our mercantile tonnage stood at 1,500,000 tons, by the end of the war it had been brought to 3,100,000 tons. Before the war our annual freight receipts had been about 40 million yen ; between 1915 and 1918 they aggregated 1,000 million yen. The average amount of marine insurance in Japan used to be 1,700 million, it rose sharply to the high figure of 15,000 million. Our invisible trading revenue over this period thus showed a remarkable increase, and we may also take its total as around 1,400 million. So by casting up our profits under both heads, we get a total of 2,800 million as being the amount of Japan's takings during the war . . . Japan of 1914 was a debtor country with obligations to the amount of 1,100 million yen. In 1920 . . . Japan stood before the world as its creditor to the amount of 2,700 million."—(Inouye.)

But this good luck could not last for ever. Bad luck turned up with the Armistice. Since then the greater part of her gold has passed once more from her possession, her finance began again its downward descent ; and before she could stop it, the great earthquake demolished Tokyo and Yokohama. Even with all the riches obtained, the calamity was so great as to send the yen down in 1924 to 38·50 dollars, a fall of 22 per cent. below mint par. Mr. Inouye, an authority on this subject, attributed the downfall of the external finances of Japan during that

period not so much to the earthquake but to the wrong policy pursued by Japan during the war.

". . . the external finances of Japan as they are to-day [June 20th, 1926] have their origin in, and are the outcome of, that chaotic financial epoch which the war brought into being . . ." —(Inouye.)

And he clearly analysed the difficulties arising from the fabulous gains during the war period.

"The fact is that she [Japan] made them too quickly and on too great a scale for her to be able to manage them, and from 1915 to the Armistice she found herself perpetually baffled by two almost insuperable obstacles, the one and greater of which was the difficulty which she experienced in financing her trade, simply because there was so much money about; the second was the extraordinary trouble which she encountered in disposing of the large sums which continued to pile up to her credit abroad in return for goods which she sold and the services which she rendered.

"As if these two obstacles were not sufficient in themselves, they were complicated by the rapidity with which these gains accrued, and so intricate was the financial tangle thus created, and so perplexing its ramifications, that the trade and finance of this country have not even yet been fully extricated from its toils.

"You know well enough what we have to endure at present—an excess of currency in circulation and an excess of the cost of living."—(Inouye.)

By the above words the eminent economist and banker did not in the least exaggerate the whole perilous position of this country's finance; and no student of economics and a lover of Japan can help being apprehensive of the outcome, which so largely depends on the recognition of the real qualities of the Japanese people of every class and their spirit of sacrifice.

With regard to the policy pursued by this country during the period of opulence, Mr. Inouye puts it to a nicety:

"The Japan of the war period in fact resembled an impecunious family which had never known what it was to taste life's good things. Then came a day when an unexpected legacy put it in possession of a cellar of noble vintages. For many arid years this family had savoured naught but chilly brew of excess imports, but now it was called on to dispense the heady wine of excess exports. It flowed in abundant measure, but there was no one who knew how to serve it properly—old brandy was served in pint pots, beer in

liqueur glasses—and in the house all was confusion. Neither the Government nor the people had any experience of what to do and it was this very lack of experience which brought such endless troubles on us."

The difficulties in this connection can be boiled down to two, viz. the difficulty of providing funds for financing foreign trade and the difficulty of handling the money accrued therefrom.

Here is Mr. Inouye's analysis :

" It may be taken that exchange banks can borrow funds financing exchange transactions only up to a certain limit and that any infringement of this limit involves uncertainty for both borrower and lender. As things stood, trade was increasing steadily, but there was no chance of bringing into this country the money which that trade was producing (owing to embargo on gold export in Europe and America), and during the war the only way in which exchange banks could finance trade was for them to borrow money on a scale hitherto unknown.

" This brings in the question of loans made by the Bank of Japan to the exchange banks for financing trade.

" On June 1918 the Bank of Japan's loans to the exchange banks had risen to 440 million yen. There were then only one or two banking establishments in this country (the Y.S.B. and the Bank of Taiwan) handling foreign exchange business, and it was utterly irregular that one or two banks only should be carrying all this business of borrowing so heavily as some 500 million—it requires very little imagination for one to see that if the exchange banks borrowed so very heavily as that, they were bound to find themselves involved in difficulty on an equally heavy scale."

Of course foreign trade is financed by exchange banks, and the funds are repaid to the exchange bankers abroad. These funds during the war were frozen, because every country in the world forbade the export of gold. The exchange bankers borrowed in Japan to the extent of 440 million yen, they had their balance abroad worth 500 million, but they could not bring it over here to settle their debts. Besides, they were losing every day because of the difference of interest rates current here and abroad, which amounted to 15 million a year. On top of this, they had to sit still and watch the yen value of these immovable balances declining further and further. It must no doubt have been a plague for the exchange bankers.

" The depreciation in the value of their balances abroad was a very serious thing for the exchange banks. . . . The measure

of the difficulties which confronted the exchange banks may be gauged by the continued increase in the Bank of Japan's exchange loans. At the end of 1915 these loans amounted to only 20 million; at the end of June 1916 they stood at 120 million, similarly in 1917 at 200 million, and in June 1918 at 440 million."—(Inouye.)

To what extent these balances abroad depreciated in value is revealed by the exchange rates.

On July 1st, 1914, the quotation on New York T.T. selling stood at \$49½ (for 100 yen), and following the increase of exports the rate finally reached \$52⅛ in December 1918—a difference of \$2⅝. This means that the value of the U.S.A. dollars in terms of yen had depreciated by \$2⅝—over 5 per cent.

This 5 per cent. represents the fall in the yen value of foreign balances of the exchange banks. But so long as the Bank of Japan continued to supply funds to the exchange banks—to finance foreign trade—the latter could carry on without much difficulty, but what they could not do was to dispose of their own money suspended abroad, and the Armistice saw them practically unable to continue.

The inevitable outcome of the whole situation was the general and serious rise in the cost of living, and Mr. Inouye said it looked very much as if the public would not be able to stand it any longer.

"The truth of the matter is this: Japan is a member of a community of nations and inferior to her fellow members in no point save one—that is money. In this one matter of money Japan is definitely their inferior. She has no independent financial resources. At this juncture Japan found herself making money. She envisaged the dazzling prospect of a Japan which would be able to rank with the rest of the world as its financial equal: this is the key to the situation which forced the exchange banks, forced the whole country, to adopt the utterly irrational course of action which they and it pursued, and so bring into being those factors which are rendering the financial position here today a thoroughly unsound one.

"Let me give you one instance of the sort of thing that happened. We had always known that in 1925 one of our 4½ per cent. sterling loans was due for repayment, and we got hold of the idea that, with the way the war was going there would be no chance of our being able to renew it, so we thought that the best thing to do was to go on accumulating funds abroad against the day when we were to be called on to redeem it in full. That is the sort of thing which, for all sorts of strange

reasons, we perpetrated in cases like this. If I may adopt a simile which I have already employed, I would say that if Japan had but been accustomed, as other more experienced nations were, to take her financial liquor good and strong—had she only been used to such things as balances abroad—it would have been possible to minimise the harm which was done. In countries where the handling of money is better understood than it is here, the ordinary citizen—the man in the street—when he makes money is always ready to invest it abroad. When I say that England, France and Germany are experienced foreign investors I mean that the general public of those countries invests its money abroad. Japan, however, made her money—made an enormous amount of it—in a very short time indeed ; she had no experience of investing abroad and she did not know what to do with it. Practically no one among the general public in this country knew anything about foreign investment ; so what happened was—I would ask you to note the point, for it is a very important one indeed—that in this country there was no one to handle this vast supply of money save three parties only—the Government, the Bank of Japan and the Exchange banks (of which the Y.S.B. is the principal). This is what left everything at cross-purposes and brought into being all those financial evils which plague us today."—(Inouye.)

And he deplored the embargo on the export of gold of this country during the period after war in these terms :

" From 1917 to 1918 the export of gold from America was prohibited, but before 1917 and after 1919 Japan could and did import heavily. Of the Bank of Japan gold reserve in 1914 the amount held in this country was 128 million, in 1918 it stood at 712 million, and in 1920 1,160 million. This gold is immobilised on account of the embargo on export of gold in this country. If Japan had not maintained the gold embargo after the war she could have gone a long way towards avoiding that instability in her exchange rates which is disintegrating the economic life of this country today."

What is really the malady causing all sorts of financial ills here ? The answer is the chronic excess of imports over exports. Mr. Inouye repeated again and again that for the last sixty years this country has been steadily using its resources to liquidate the annual debit balances created by this excess of imports. Japan is shouldering foreign loan obligations amounting to 1,900 million simply because she is an excess importer. After the Sino-Japanese War this country received 360 million

as indemnity, that went to meet import bills. During the war she made over 3,600 million yen; that also has gone the same way. Japan is still as hard put to it as ever to find money to pay for her imports.

" For six decades the bankers and economists of Japan have been perpetually racking their brains to find some means whereby this country can secure the money required to pay for its excess of imports. The financial horizon is black and in the clouds which encompass it I see no rift, no gleam of sunlight, and in their shadow we walk daily. It is a persistent feature of the economic situation of this country . . ."—(Inouye.)

To cure this chronic disease of excess imports the immediate remedy apparently lies in the reduction of imports and augmentation of exports; and the Government is tackling this problem by encouraging to its utmost the exports and by barring the way, some by restriction, some by prohibition, to the imports of certain commodities. But this policy is well-nigh impossible—in the case of imports—for a country like Japan where there are not enough natural resources and where the population, already so dense, still increases with alarming rapidity. However, the Government endeavours to improve the situation the best it can, and this policy is reflected in the enormous assistance accorded to the Y.S.B., the principal official institution for financing foreign trade. But the result of this policy is not satisfactory so far as the aim to reduce imports is concerned.

The next remedy takes the form of exchange manipulation, and the Y.S.B. was entrusted with this policy. Generally speaking, low exchange rates favour exports but go against imports, whereas high exchange rates favour imports and go against exports. The exchange manipulation with a view to curb the imports and at the same time to increase the exports is decidedly condemned as useless by Mr. Inouye.

" I can say that it can serve no useful purpose whatever, for the simple reason that if you wish to favour the export trade you must bring your rate of export bills as low as possible, and I have already explained how your lowering the rates of export bills means that you must simultaneously lower the rates on import bills; any benefit therefore to exports would involve a corresponding handicap on imports and—if there were no embargo in force—would result in gold being shipped to pay for imports. So it comes to this: the definite and extreme limit to which it is possible to lower exchange rates in order to promote exports is a quotation not under gold export point, and if you

prohibit the export of gold, you know well enough what happens—a rate down to $38·50 as it was in 1924-5.

"It is generally admitted that it is impossible to do anything very much in the way of promoting exports by means of an exchange policy.

"Now we come to the question of handicapping imports. Exchange quotation can be made to go against imports, but there is a very definite limit to what can be done here too. If you seek to establish a rate which transgresses that limit, you will promptly find yourself in conflict with the fundamental principles of exchange. You will immediately see gold shipments beginning—see the very thing you have been trying to prevent: an outflow of money."

The third remedy then lies in the import duties. This again is condemned by Mr. Inouye.

"Suffice it to say that if we are seeking to cut down imports it is no good looking to tariffs to do it for us, as our existing import duties are already too high and there is no more room for further increase in them, for any such increase will be thoroughly harmful and will stultify any attempts to control the price level in this country."

At the time of writing, the Government has already increased duties on imports of various commodities.

"A tax on imports is equivalent to a deliberate lessening by the taxing country of its demand for foreign products. A tax on exports is equivalent to calling on other countries to decide whether they will continue to lay out as much as before on the taxing country's products."—(Taussig.)

The effect of import duty is to raise the price within the country of the dutiable articles. The quantity bought will remain the same if the demand is inelastic, but will decline if demand is elastic—which is usually the case—and the decline will depend upon the degree of elasticity in the demand. But most of the imports into Japan are raw materials which are destined to be turned into manufactured products; the demand for them is therefore inelastic. The quantity of these materials will not decline because of the import duties, unless exports of finished products are curtailed. On the other hand, for the commodity whose demand is elastic the quantity will decline only at first, as that decline will set in motion a train of forces which later will counteract the decline. Admitting that the decline of imports is certain and that exports remain the same, specie flows in, prices and money incomes rise. In the foreign country the opposite consequences ensue. But as

prices and money incomes rise, the consumers will be inclined to spend more on imported goods. At first they will likely buy more of the goods which are not heavily taxed, but later will indulge in even the heavily taxed articles, as those articles will become cheaper, because prices abroad decline ; whereas the consumers abroad will buy less of the Japanese goods than before, because prices rise in Japan, and their money incomes have been lowered. Ultimately equilibrium will be restored. Japanese imports may be less but exports also will be less. Hence the objective of reducing imports and increasing exports at the same time cannot be achieved by import duties.

Apart from that, the possibilities of retaliation must also be considered, hence any quest for gain of this sort is highly hazardous. That is why Mill condemns import duties as " purely mischievous, both to the country imposing them and to those with whom it trades."

The fourth remedy may take the form of increasing the gold output of the country ; but again Mr. Inouye says :

" Except from an academic point of view the output of gold in this country is so small as to be hardly worth while taking into account."

However slight the result may be, the Government did not lose sight of it, hence the policy of encouraging gold mining by buying the output of the mines at a premium and selling it at a discount to the Bank of Japan, which results in an enormous loss on the part of the Government. The reader has already seen this in the chapter on the Bank of Japan.

This policy is reflected in the rise of production since 1932. The table below, compiled by the Mining Bureau of the Ministry of Commerce and Industry, shows the estimate in 1936 reaching 39,500 kilograms.

PRODUCTION IN THREE AREAS IN KILOGRAMS

	Japan Proper	Korea	Formosa	Total	Gains
1931 ...	10,961	9,030	1,868	21,859	16·5
1932 ...	11,258	9,701	2,055	23,014	5·2
1933 ...	12,259	11,509	2,119	25,887	12·4
1934 ...	13,425	12,428	2,768	28,621	10·5
1935 ...	16,429	14,719	3,053	34,193	19·4
1936 ... (Estimates)	19,000	17,000	3,500	39,500	15·5

The fifth remedy is advocated by the former Minister of Finance himself in the form of invisible trade. Mr. Inouye

wrote his lectures in 1926. Since then the invisible trade of this country has been oscillating. In 1934, for instance, Japan's invisible exports aggregated 1,100,236,000 yen and the invisible imports 1,091,489,000, balancing favourably at 8,747,000. In comparison with 1933 these figures represent a marked gain of 113,441,000 in exports and of 193,519,000 in imports. The favourable balance shows a reduction of 80,078,000.

In order to dissipate the danger once and for all, Mr. Inouye decided in favour of a policy of increasing the shipping industry with a view to bringing in the service returns to counteract the debit balance of visible trade. No one can deny that this is wisdom.

He shows in detail, supported by data and statistics, how this aim can be accomplished, and it is a pity that his book ends at that; because there seems to exist another possible remedy, which evidently he had no time to expound, as his life was brought to an abrupt end at the hands of an assassin.

Before coming to this sixth remedy let us sum up for clarity's sake that the balance of indebtedness is against Japan because she imports more than she exports, owing partly to her enormous population which needs to be fed and partly to the lack of enough land for cultivation and also the lack of natural resources in this country.

Now the balance of indebtedness consists of:

1. Balance of commerce.
2. Balance of services.
3. Balance of capitals.

The balance of commerce is all along against Japan, so Mr. Inouye advocated a policy of increasing the balance of services to secure the adjustment in the balance of payments; in other words, he proposed to augment the freight and insurance receipts.

The Government is also pursuing this policy, which is reflected in the large amount of State subsidy to the various shipping companies and also in the tourist industry undertaken by the Railway Ministry.

It should be recalled that so far as freight charges are concerned there are items which are purely domestic. If goods are carried in foreign vessels from Japan to a foreign country, only the Japanese goods are paid for. But if the goods are carried by Japanese boats, the service must be paid for by foreigners to bring the goods to their country, and this item is the material

for the balance of international payments as it takes its place in the adjustment of that balance and constitutes a gain for Japan.

Conversely, if goods are imported into Japan and those goods are carried by Japanese vessels, the freight charges are paid by one set of Japanese to another set—not by Japanese to foreigners, hence they are purely domestic and will not figure in the international balance sheet. At any rate, if Japanese vessels carry the goods, whether outward or inward, and even when the freight charges do not figure in the international balance sheet, Japan will not have to pay foreigners for the service ; hence, if it is not a gain, still it prevents a loss.

The sixth remedy we like to advocate lies in the balance of capitals, in other words investment in foreign countries, chiefly those which are under-developed, to bring in interest and income to compensate for the loss from the excess of imports.

Judging from the amount of investments in foreign countries undertaken by the Japanese people up to the present, there is much to be done in this connection. The Government is fully alive to this possibility, hence its policy of expansion in Manchoukuo and its encouragement in commercial undertakings in China.

The actual Japanese investment in China, Manchoukuo, Korea, stands at 130 to 140 millions and yields only 20 million yen per annum.

The British commercial investment in Malaya, Siam and Dutch East India amounts to more than 1,000 million yen, whereas Japanese investment in these territories is estimated at 100 million yen only. This can be increased enormously, considering the wealth of the mercantile community in this country. The reason for this insignificant figure is simply the lack of experience of the Japanese people in this sort of investment and the apathy towards this kind of enterprise.

If Japan succeeds in mobilising the balance of services and capitals to the aid of the adverse balance of trade, there is no reason for this country to be haunted by the grim ghost of the debit balance of commerce.

Great Britain is in the same position, a country which every year buys an enormous amount more than it sells. But the balance of services and balance of capitals more than offset the excess of imports. In 1933 its net imports exceeded net exports by about £260 millions. But the deficit was made up by the surplus of invisible exports, that is to say the receipts from overseas investments, shipping and financial services. Net

income from overseas investments alone reached £155 millions, and shipping income £65 millions, financial services £40 millions. Before the war this country used to invest new capital abroad to the amount of £200 millions a year ; and a large part of the demand for British exports was a direct result of these investments which were mainly lent to the less-developed countries which, with the help of British capital, rapidly expanded both their agricultural and industrial production.

This chapter is regrettably long ; however, that is unavoidable if it is to convey to the reader the peculiar position of Japan in the domain of foreign exchange and foreign trade and at the same time to bring into relief the importance of the Y.S.B. and the necessity for its creation as a special and separate institution in parallel with the Bank of Japan.

CHAPTER XII

Ordinary Banks

As explained in the preceding chapters the prototype of the banker was the gold and silver smith who developed himself afterwards into a money-changer, into an exchange merchant, into an intermediary between lender and borrower. It was only in the last stage that he earned the appellation of banker, and his place of business became a banking-house.

Gilbart says : " A banker is a dealer in capital . . . he is an intermediate party between the borrower and the lender. He borrows of one party and lends to another ; and the difference between the terms at which he borrows and those at which he lends forms the source of his profit."

But Macleod condemned this definition as " the most profound misconception of the nature of the business of banking." He contested that " in former times there were many persons who acted as intermediaries between persons who wanted to lend and persons who wanted to borrow. They were called money scriveners. The father of John Milton was a money scrivener. But nobody ever called money scriveners bankers." Then he went on to define the word banker : " A banker is a trader whose business is to buy money and debts by creating other debts."

If we take the present-day business of a banker, Macleod's definition is without flaw, but in ancient times when no credits of any shape or form were employed as negotiable instruments, and transactions were effected in cash, to buy debts and to create debts—which is the rôle of a banker according to Macleod—was not possible.

When we accept the definition of bank as deriving from *Banco*, meaning the bench of a money-changer, we also assign to the banker the old practice of changing money, of borrowing (accepting deposits) and lending, the function of an intermediate party as Gilbart stated. The fact that money scriveners, or

argentarii, or exchange merchants were not called bankers is not necessarily a proof that these persons cannot be termed bankers. If a money scrivener can be described as using the money of others which he borrows in order to lend to other persons, he is without doubt a banker.

Ricardo says: " The distinctive function of the banker begins as soon as he uses the money of others"; which implies that so long as he uses his own money he is simply a money-changer. But of course Gilbart's definition does not cover the whole scope of activity of the present-day banker as does that of Macleod.

Bagehot was of the opinion that the purpose of a bank was only to give good money and to remit money, and that deposit business was adopted afterwards. " Paper issue is the natural prelude to deposit banking."

Besides, we cannot find any precise and definite answer to the question: who first used the word bank and when it was first employed? It is recorded that banking was practised in ancient Athens and in the Roman republic, but the art was lost under the later empire and only revived in mediæval Italy. The ancient banks, such as the Bank of Venice (1171) and of Florence (1530) were then called companies instead of banks. However, the business of ancient bankers—money-changers or money scriveners—cannot apply to the functions of the banks of today, when a bank has become a manufactory of credit.

We can affirm that the history of the ordinary banks in Japan dates back to the days of money-changers. " It goes back 243 years into the mists of old Japan when goldsmith notes were in circulation in England and the Bank of England had not yet come into existence."—(*Japan Year-Book*.)

The aim of banking is for profit, sheer and simple, and banking has been and still is a trade profitable far beyond the average trade. As the business of banking is simple—" if it is hard, it is wrong" (Bagehot)—there were many, among the mercantile community, who took to banking.

" Any careful person, who is experienced in figures and has a real sense, may easily make himself a good banker."—(Bagehot.) Hence we see private banks organised in this country even far back in " the mists of old Japan," and very few of them failed.

The aid they rendered to trade and industry is significant. There is one consequence produced by banking, which Macleod says many persons are apt to overlook, and that is the rate of interest prevailing in the times when there was no credit—loans were made in actual cash—and the rate when credit was used, that is when banks had been established. Macleod asserted

that in England the rate of interest was 18 to 35 per cent. before London goldsmiths took to banking, and 10 per cent. after. "When the bankers found that they could maintain a large amount of their credit in circulation, which served the purpose of money, they found, as it were, that their resources were multiplied and consequently they began to bid against each other, and in a very short time the average rate of interest was reduced from 10 to 3 per cent. When the Bank of England was founded, the Exchequer bills and other Government securities were at a discount of about 40 per cent. In a very short time the bank brought down the rate of Government securities to 3 per cent." In Japan the use of *tegata* had brought down the rate of interest considerably.

Banking in this country and in Europe developed along somewhat different lines. While in Europe the growth of banking followed the principle of saving money, in Japan banking developed from the restriction of credit—that is to say, by limiting the credit to those who are sound.

"The main point on which one system of credit differs from another is soundness. Credit means that a certain confidence is given and a certain trust reposed. Is that trust justified, and is that confidence wise? These are the cardinal questions. To put it more simply—credit is a sort of promise to pay; will those promises be kept? Especially in banking where the liabilities or promises to pay are so large, and the time at which to pay them, if exacted, is so short, an instant capacity to meet engagements is the cardinal excellence."—(Bagehot.)

In the Japan of those days there was too much credit about and most of it was unsound, hence the bank which enjoyed the "cardinal excellence" limited the unsound credit.

Moreover, in Europe the banking tendency is to avoid being involved in actual trade—its function is to finance trade; in Japan the result of the growth of banking has been an admixture of trading and banking, consequently we see that almost all the big banks are controlled by business interests. Various circumstances have conspired to bring about this situation. The salient point is that in former times business meant, not only the exchange of commodities in terms of money, but also the business in money itself; one is the fixing of the value of commodities and the other is the fixing of the medium of exchange. Therefore the banks were compelled to do business in money, besides following their banking routine. A similar situation was found in Europe in the eighteenth century prior to the adoption of the gold standard.

The primary object of any business at all, including banks, is to make profit. So long as such is legitimately obtained there is no reason for objecting to it, whether it complies with the rules of orthodox banking or not. During the Tokugawa period native banking had no alternative but to meet the demands of business, consequently it did what its present-day counterparts would prefer to avoid.

The National Bank Act was aimed at correcting this undesirable element in banking and currency, but it failed because the Act disregarded the primary object of banking, which is profit, and not expediency as laid down by the State.

When the Government passed the National Bank Act it allotted the national banks to different localities according to population and the amount of taxes, but no consideration was paid to the economic conditions of a particular district. For this reason in some localities the need for financial facilities still weighed on the market. Thus where more banking institutions were needed—where commerce and industry thrived—a number of private banks, unincorporated and operated without charter or special authority from the governmental body, were established side by side with the national banks. Not being incorporated they were not subject to inspection by public officials, nor were they compelled to render reports of their business to public authorities.

In fact they did not use the word bank as their trade name, because that was forbidden by the Government.

Prior to the Imperial Restoration of 1867 there already existed branches of foreign banks. Taking these foreign establishments as their model some enterprising merchants set up banking businesses under the name of exchange houses. In reserving the word bank exclusively for the national banks the Government thought no harm would be done; but the Government was wrong, as the wisest course would have been the prohibition of the performance of banking functions except under Government licence; however, Japan at that time was not yet prepared for such drastic measures.

Mr. Langston states that the very word "bank" connotes security in the minds of many people, and therefore almost any group of persons who may open an office which they call a bank will, through the confidence aroused by the name, attract deposits from people seeking a place of security for surplus funds. It is essential, therefore, that public confidence in institutions called "bank" be preserved, so that people will be encouraged to deposit their savings in places where the

money will be used wisely, thus counteracting the tendency to hoard money which will be exposed to the hazards of theft, fire and foolish speculation. But in Japan the confidence of the people was placed more in the merchants than in the Government; therefore, whether the word bank was used or not was immaterial for those institutions which enjoyed public trust. These private institutions conducted their banking business along the old lines of money changes, remittances, sales of gold and silver, loans, deposits, etc.

Confronted with the steady economic development in this country, before the promulgation of the National Bank Act (March 1876), the Government was compelled to permit the establishment of ordinary banking houses not authorised to issue notes (so long as they did not use the word bank as their trade-names). The first ordinary banking institution formed under this arrangement was the Mitsui. But when the Act was passed the financiers were busy forming national banks and few attempted to establish ordinary banks. After the number of national banks reached the maximum permitted by the Government, ordinary banks were organised in succession and their number reached ninety-four at the end of 1881.

Following the disappearance of the national banks there was a gradual advance in the ordinary banking business, due to the steady expansion of the financial conditions of the country, as is clearly indicated by the table on opposite page.

The number of ordinary banks reached 1,867 in the year 1901. This was the maximum as afterwards, owing to frequent financial disturbances, many of the weaker ones could not survive—they were either wrecked or merged with other banks. As a result, the number registered a gradual decrease, finally falling to 1,326 in the year 1920. But in 1921, as a consequence of the new Savings Bank Act which put a restriction on the savings functions, many private savings banks transformed themselves into ordinary banks. The number of the latter thus swelled to 1,799 in the following year.

Only recently have the ordinary banks come to occupy a prominent position of increasing importance; as during the first fifteen years of the Meiji era, owing partly to the chaotic state of currency and partly to the lack of modern banking knowledge in the mercantile community, private banks struggled in the background and their influence in the money market was negligible. The national banks, although resulting in complete failure, left something useful behind—a contributory influence on the growth of private banking.

PRINCIPAL ACCOUNTS OF ORDINARY BANKS

in yen (000's omitted)

Year	Number of Banks	Paid up Capital	Reserves	Deposits	Loans	Securities
Meiji						
33 (1900)	1,802	245,169	33,032	436,780	661,974	102,365
34 (1901)	1,867	257,939	38,868	450,187	635,107	109,057
35 (1902)	1,841	264,530	45,679	536,703	697,552	116,494
36 (1903)	1,754	258,392	50,503	566,228	725,355	114,999
37 (1904)	1,708	253,950	54,477	605,317	733,145	149,646
38 (1905)	1,697	257,777	59,001	692,521	796,432	161,104
39 (1906)	1,670	261,569	68,183	1,033,763	1,111,765	175,560
40 (1907)	1,658	291,600	84,183	944,295	1,113,162	175,445
41 (1908)	1,635	300,660	93,744	938,073	1,098,149	193,601
42 (1909)	1,617	316,377	92,347	1,054,414	1,123,377	247,425
43 (1910)	1,604	319,259	101,288	1,185,697	1,249,953	275,768
44 (1911)	1,603	331,954	111,323	1,256,248	1,393,505	270,800
Taisho						
1 (1912)	1,621	369,415	111,832	1,357,272	1,522,951	283,098
2 (1913)	1,614	396,425	122,315	1,443,511	1,670,868	274,000
3 (1914)	1,593	406,451	132,288	1,519,760	1,726,850	265,295
4 (1915)	1,442	357,709	127,669	1,699,566	1,728,728	328,379
5 (1916)	1,427	374,481	134,745	2,256,831	2,232,881	421,244
6 (1917)	1,398	436,996	142,248	3,233,914	2,978,878	561,885
7 (1918)	1,375	513,086	161,673	4,639,315	4,146,940	835,767
8 (1919)	1,344	717,156	173,648	5,744,097	5,666,461	847,979
9 (1920)	1,326	963,572	267,404	5,826,526	5,902,963	1,085,064
10 (1921)	1,331	1,044,587	339,073	6,444,836	6,242,035	1,499,937
11 (1922)	1,799	1,450,228	493,387	7,801,460	7,848,183	1,746,035
12 (1923)	1,701	1,491,054	543,189	7,805,265	8,059,009	1,746,424
13 (1924)	1,629	1,507,750	585,230	8,093,168	8,289,139	1,880,467
14 (1925)	1,537	1,500,628	627,013	8,726,776	8,842,683	2,051,251
Showa						
1 (1926)	1,420	1,496,613	663,054	9,178,803	9,219,800	2,158,366
2 (1927)	1,283	1,481,479	629,115	9,027,897	8,180,944	2,591,382
3 (1928)	1,031	1,379,060	592,701	9,330,796	7,709,903	2,495,046
4 (1929)	881	1,381,143	603,858	9,292,924	7,411,393	2,585,511
5 (1930)	782	1,296,411	589,740	8,738,289	7,021,287	2,385,243
6 (1931)	683	1,249,021	535,742	8,269,036	6,749,130	2,186,891
7 (1932)	538	1,217,430	530,971	8,319,118	6,601,920	2,281,399
8 (1933)	516	1,186,661	515,056	8,815,851	6,506,263	2,697,030
9 (1934)	484	1,162,265	540,590	9,438,273	6,304,279	3,255,572

It should be borne in mind that while Japan was struggling to rid herself of the inconvertible currency incubus, the private banks were not very much affected by this drawback. "What a banker wants for his use is a sufficient supply of legal tender of the country, no matter what that legal tender may be."—(Bagehot.) A good system of currency is beneficial and a bad

one harmful to the country. Indirectly only, bankers gain or lose with the country, but directly, and for their purposes, they have no need to worry about the ups and downs of currency. They occupy themselves with only the sums of legal tender in their tills. It is sufficient for them to hold inconvertible notes; whether these notes expand or contract in value they need not care. Their concern is only to have enough notes to pay all probable demands. So most of the private banks held their own in the crisis; whereas the national banks, which were banks of issue, collapsed one by one.

When the privilege of note issue was withdrawn in 1883 the remaining national banks converted themselves into ordinary banks, whereas the banking houses which did not call themselves banks reorganised their business to suit the new circumstances and became successful institutions.

It was only from the year 1909 that the Japanese bankers began to recognise the utility of joint stock business. But even European and American banks have only recently grown into joint stock companies.

"This success of joint stock banking is very contrary to the general expectation at its origin. So late as 1845 Sir R. Peel thought the foundation of joint stock banks so dangerous that he subjected it to grave and exceptional difficulty. But the effect of his legislation was to give to those very banks, if not a monopoly, at any rate an exemption from new rivals."—(Bagehot.)

Up to the early decades of the nineteenth century banks in Europe as well as in Japan were also generally one-man institutions and in most instances family concerns. The enormous amount of trust enjoyed by the individual who owned the bank, or had the management of it, was the credit of the bank itself.

In those days when banking institutions were owned and controlled by individuals, the credits were usually good; and we see the survival of such institutions today in the Mitsui, Sumitomo, Yasuda, etc. Such institutions, however, have become a rarity today, owing to several reasons which render one-man banking no longer possible except under extremely special conditions. Hence all the one-man banks of Japan have been converted into joint-stock banks, but the families who first created them still hold the control of the organisations.

Bagehot preferred the one-man institution to a joint-stock bank. He says:

"I can imagine nothing better in theory or more successful

in practice than private banks, as they were in the beginning. A man of known wealth, known integrity and known ability is largely entrusted with the money of his neighbours. The confidence is strictly personal. The credit of the bank descends from father to son, this inherited wealth soon bringing inherited refinement."

But Bagehot seems to have forgotten that men on the make and already made are not always kind enough to leave sons as able and honest as they are. Besides, one fact stands out, that in the world of today business has grown so large that an individual or a family has scarcely enough capital to start a bank of sufficient magnitude to be able to cope with the business offered. If there are those who are capable of doing so, they would shrink from assuming liability, and the essence of great banking is to know how to shoulder the liabilities.

The growth and success of modern business undertakings are due primarily to the ability of a certain group or groups of individuals to collect and utilise men and materials for the benefits of national or international commerce. At all events, the control of trade and banking institutions has rested with a group of individuals more than with a certain individual himself. The difference between the situation in the past and in the present is that in former times the individual in control was his own master or had only a few masters to whom he owed his responsibility, consequently he could do what he liked according to his whims and fancies ; whereas the position today is that the individual in control is not his own master, but dependent upon a body of shareholders to whom he has to account for his stewardship, and he himself is not free and absolute in his opinion and judgment whether it be right or wrong. The change brought about is reflected in the rapid industrial development in advanced countries, where the joint-stock companies became popular because they were favourable both to capitalisation and control. It is a truth which the world discovered by experience in the realm of politics as well as economics, that group control is far better than one-man administration.

The moderate scale of business of old Japan, coupled with the mutual distrust engendered by the despotic Shogun's government, contributed to the maintenance of business on the old basis even as recently as fifty years ago. Thus practically all kinds of business, including banking, were owned and controlled by particular individuals. Especially with banks, it was found necessary to retain the old method of individual proprietorship in order to maintain public confidence. The

development of commerce and industry during the Meiji era called for a reorganisation of the private banks, as the system proved incapable of meeting the new eventualities; hence most ordinary banks, which at one time were one-man institutions, became joint-stock companies. But in theory they still remain family concerns, for the majority of the capital stock of these banks is held by the families who were the old proprietors. The business is now managed by groups of capable men recruited from among the most competent of the land.

Between 1882 and 1886 a serious depression of trade set in on account of the policy of deflation of currency, which caused a lull in banking business; but once this period had passed and adjustment was made, the country witnessed another advance in economic activities as well as in the development of banking business. The first period of industrial expansion appeared towards the end of the nineteenth century, owing partly to the long span of rising prices caused by the depreciation of silver and partly to the successful war with China. This fact may be gauged by the total paid-up capital of joint-stock companies, which increased from 537 million yen in 1895 to 1,750 million in 1900. Of course the conditions were most favourable to the expansion of banking activities, so during this period numerous banks were founded and many of the existing ones extended their capital stock by converting themselves into joint stock companies.

By 1901 there existed no less than 2,355 separate banks in the country. The number was at the zenith, as afterwards it declined gradually, but banking enterprise itself was in the ascendant, with the result that banking houses of private ownership which did not come within the purview of the National Bank Act, amounting to 954 in 1884, were free to carry on business without Government control or official supervision.

The Government, seeing the risk inherent in such a state of *laisser-faire*, took steps to safeguard public interest and so the Ordinary Bank Act and the Savings Bank Act were both promulgated in 1890 and came into force three years later.

By virtue of the Ordinary Bank Act no bank can be founded without Government licence. The Treasury is empowered to inspect all the business of the banks, which are subject to strict control. The duties of reporting periodically the state of their business to the authorities and also making public a semi-annual balance sheet were also required.

A reckless competition ensued, owing to lack of correlation and to the vast number of small banks. This situation caused

a movement for the consolidation and concentration of the banking organisations, while the Government adopted the policy of eliminating the weaker ones.

With the enforcement of the new Banking Act in 1928 the Government especially encouraged the consolidation of banks; consequently the number of banks, which in 1933 reached 637—including the Bank of Chosen and the Bank of Taiwan—with an aggregate paid-up capital of yen 1,681,927,369, was reduced to 484 at the end of 1934. A gradual adjustment was carried out with increased bank mergers. The branches and sub-branches, which had been established to an excessive number, reaching 7,778 (5,254 branches and 2,524 sub-branches), was also reduced to 5,146 (3,893 branches and 1,253 sub-branches) at the close of 1934.

Details of the conditions of banking institutions in Japan proper in 1925-34 are on page 202.

Among the ordinary banks of the non-Government banks there are six which stand out from the rest in importance. They are the Mitsui, Mitsubishi, Dai-ichi, Sumitomo, Yasuda and Sanwa; the last-named was created in December 1933 by the amalgamation of three banks, i.e. the Konoike, Yamaguchi and the Thirty-fourth Bank. A table of comparative statistics at the end of 1935 is on page 203.

Both the deposits and the loans increased enormously during the period following the Russo-Japan War and the War of 1914-18; but a flight of capital took place in 1930 owing to the restoration of the gold standard, and it caused temporarily a contraction in the amount of bank deposits. In recent years, while the Government successively issues Government bonds to cover budgetary deficits, the volume of deposits has again risen. On the whole an easy tendency characterises the monetary situation of today. Although there has been a decrease in the amount of loans, yet considerable gains have been made in the security holdings of banks.

Though a few amendments were made from time to time after its enactment, the greater part of the Bank Act of 1890 became obsolete and inadequate in the presence of the rapid progress in financial and economic conditions of the country. A new Act was therefore passed in March 1927 and came into effect in January 1928.

The essential features of this new Act are:

1. *Capital and Reserve Funds.* The Commercial Code does not limit the amount of capital in any commercial firm, but the

BANKS

At the end of each year (in Yen 1,000)

Year	Number	Authorised Capital	Deposits	Advances	Net Profit	Dividend	Rate of Dividend %
1925	1,698	2,896,082	11,089,804	11,710,718	376,973	166,949	9·8
1926	1,572	2,887,539	11,544,858	12,103,944	378,529	170,060	8·9
1927	1,422	2,872,635	11,557,791	11,593,366	347,988	142,053	10·4
1928	1,157	2,691,148	11,841,255	11,076,440	341,020	135,366	7·7
1929	1,001	2,682,732	12,208,003	11,008,455	338,881	136,256	7·6
1930	892	2,536,949	11,731,161	10,973,133	292,302	132,634	7·3
1931	791	2,458,027	11,156,940	10,995,733	266,518	109,779	6·6
1932	645	2,416,397	11,402,489	10,718,675	286,269	107,535	6·6
1933	621	2,359,724	11,946,907	10,442,889	319,074	101,796	6·4
1934	581	2,312,842	12,585,684	10,147,937	360,178	101,299	6·4

Note.—Exclusive of the number of banks in Chosen and Taiwan.

ORDINARY BANKS

At end of each year (in Yen 1,000)

Year	Number	Authorised Capital	Deposits	Advances	Net Profit	Dividend	Rate of Dividend %
1925	1,534	2,386,761	8,662,676	8,781,791	302,195	126,950	9·2
1926	1,417	2,361,198	9,120,472	9,158,341	298,148	127,950	9·5
1927	1,280	2,344,990	8,969,985	8,124,813	268,281	104,654	8·3
1928	1,028	2,169,603	9,252,891	7,497,428	231,580	96,871	7·1
1929	878	2,158,687	9,237,697	7,356,710	216,792	94,895	6·9
1930	779	2,021,404	8,687,085	6,969,140	180,781	83,377	6·5
1931	680	1,939,482	8,215,128	6,696,228	163,207	71,769	5·7
1932	535	1,898,352	8,254,736	6,545,701	169,426	67,781	5·6
1933	513	1,843,179	8,749,566	6,453,890	176,059	63,082	5·4
1934	481	1,802,172	9,362,213	6,247,150	197,387	62,921	5·4

(Figures are in thousand yen)

	Mitsui	Mitsubishi	Dai-ichi	Sumitomo	Yasuda	Sanwa
Authorised capital ...	100,000	100,000	57,500	70,000	150,000	107,200
Paid-up capital	60,000	62,500	57,500	50,000	92,750	72,000
Reserves	52,000	46,000	68,500	36,500	66,500	25,510
Deposits	796,293	730,607	913,436	952,297	832,562	1,114,970
Loans and Deposits ...	481,396	335,802	510,231	555,572	618,711	793,279
Foreign bills purchased ...	49,039	33,080	14,350	15,591	5,128	3,680
Profits for half year ...	13,123	11,550	8,404	9,066	9,010	5,357
Total B/S	1,009,062	910,284	1,086,454	1,121,999	1,098,165	1,307,752

Banking Act requires that an ordinary bank must be a joint stock company with a capital of not less than 1 million yen in other towns, and in Tokyo and Osaka 2 million yen, with the exception of those banks already in existence in a community of less than 10,000 population, whose minimum capital is allowed to remain at 500,000 yen.

2. The use of the word bank (*Ginko*) in the trade name is made compulsory for every bank but prohibited for other businesses than banking.

3. The Commercial Code provides that a commercial concern has to set aside 5 per cent. of the net profits as reserve annually, until that reserve reaches an amount equal to 25 per cent. of its total capital; but the Banking Act requires that an ordinary bank has to set aside 10 per cent. of the net profit annually as reserve, until the total reserve equals the amount of the capital.

4. The books of a bank are to be closed semi-annually, at the end of June and December. Banking hours are prescribed from 9 a.m. to 3.30 p.m. on week-days and from 9 a.m. to noon on Saturday. Holidays are limited to national holidays, Sundays and other holdays generally observed in the localities where the banks are situated.

5. Banks are strictly prohibited from engaging in any activities other than proper banking operations, excepting mortgage bonds (the business of the underwriting of a subscription to mortgage debentures issued by commercial and industrial companies), trust business (to play the part of trustees to the indentures arising from the business above), safe deposits and other subsidiary business which are incidental and usual to banking service.

This provision of the law is necessary because in former times the banks used to engage in warehousing, security brokerage business, etc., which often met with failure and thus tended to reduce the credit of the banking business as a whole.

6. The Treasury's permission is required for the establishment of a bank or of a branch office, the removal of the business place of a bank, the increase of its capital, its amalgamation or dissolution. Official permission is also required when a bank's directors or managers wish to participate in the business of other companies or corporations. The banking law further requires a bank to submit a written report to the Treasury regarding changes in the articles of the corporation, appointment and discharge of its directors or managers, and also in case of suspension of payment of deposits.

7. The Minister of Finance is authorised, whenever he deems fit, in consideration of the business conditions of a bank, to suspend its business, to demand deposit of its properties, or to issue any other necessary orders. In case a bank operates contrary to its laws, regulations, articles of corporation, orders issued by the Treasury, or contrary to public welfare, the Minister in question may suspend its business or demand a change in the directors or auditors of the bank.

8. The Minister of Finance is authorised to demand, whenever he deems fit, a special report on particular business or operations of a bank, and to send officials to examine the conditions and standing of any bank.

9. A bank is required to publish in local newspapers at the end of each business term its balance sheet in the form specified by the Minister of Finance.

10. In case a bank makes false statements in its reports or advertisements, or when it obstructs the official examination by concealing books and documents or by other means whatsoever, the directors, managers and auditors of the bank shall be subject to a penalty of not more than one year's imprisonment or a fine of not more than 1,000 yen.

The banking law requires all the banks to file with the Minister of Finance their business reports, reports of their auditors, according to the forms specified by the Treasury within a specified period, in order to enable the authorities to obtain adequate information about the business and financial standing of the bank.

The business reports consist of (a) Report on Operations, (b) Balance Sheet, (c) Profit and Loss Account, (d) Statement covering Reserve Funds and Distribution of Profits, (e) Minute Report on Reserve for Payment of Deposits (Cash Reserve).

With regard to the report on operations, a bank is required to give a full account of :

(1) general monetary situation ;
(2) fluctuation in money rates ;
(3) increase or decrease in transactions ;
(4) changes in various accounts ;
(5) investments ;
(6) reserve for payments of deposits and other important engagements.

Forms of Balance Sheet and the Statement of Profit and Loss Account to be submitted are given in the following pages.

BALANCE SHEET OF ....

The ......th term as on the ......th

ASSETS

Dr. Yen

ACCOUNT OF CASH IN HAND AND WITH BANKERS:	
Cash in hand	
Balances with Bankers (including balances with Bank of Japan)	
Gold and Silver Bullion, and Foreign Currencies ...	
CALL LOANS	
ACCOUNT OF SECURITIES:	
Government Bonds (Held in hand)	
Local Bonds	
Foreign Bonds, etc.	
Debentures	
Shares	
ACCOUNT OF (INLAND) BILLS DISCOUNTED:	
Bills accepted by Banks	
Commercial Bills	
Bills in exchange for goods (i.e. Documentary Bills)	
ACCOUNT OF ADVANCES:	
Loans by way of Bills	
Loans by way of Certificates	
Overdrafts on Current Account	
Miscellaneous Loans	
SECURITIES LOANED (TO CUSTOMERS)	
FOREIGN EXCHANGE ACCOUNT:	
Foreign Bills purchased	
Interest bearing Bills	
Due from Foreign Banks	
DUE FROM (INLAND) CORRESPONDENTS	
ACCOUNT BETWEEN MAIN AND BRANCH OFFICES ...	
(CUSTOMERS') LIABILITIES (UNDER LETTER OF CREDIT, ETC.), *per contra*	
SUNDRY ACCOUNTS:	
Value of (office) buildings under construction	
Provisional payments	
ACCOUNT OF MOVABLES AND IMMOVABLES:	
Premises and furniture for business use	
Movable and Immovable Property	
SHAREHOLDERS' ACCOUNT:	
Capital uncalled	
LOSS	
Total	

BANK LIMITED

day of the month of ...., 193...

LIABILITIES	*Cr.* Yen
ACCOUNT OF DEPOSITS :	
Current Account	
Special Current Account	
Deposits at notice	
Fixed deposits	
Miscellaneous deposits	
BORROWED MONEY ACCOUNT :	
Borrowed money	
Rediscounted bills	
CALL MONEY	
SECURITIES BORROWED (FROM CUSTOMERS)	
FOREIGN EXCHANGE ACCOUNT :	
Foreign Bills sold	
Due to Foreign Banks	
DUE TO (INLAND) CORRESPONDENTS	
ACCOUNT BETWEEN MAIN AND BRANCH OFFICES ...	
LIABILITIES (UNDER LETTER OF CREDIT, ETC.)	
SUNDRY ACCOUNTS :	
Dividends unclaimed	
Unpaid interest, etc.	
Rebate on Bills not due, etc.	
Taxes on deposit interest	
Provisional Receipts	
SHAREHOLDERS' ACCOUNT :	
Capital	
Legal Reserve Fund	
Special Reserve Fund	
Dividend Reserve Fund	
Fund for Pension and Relief of Employees	
Profit for the term (half-year) (including Balance from last account, Transferred from Fund for Pension and Relief of Employees)	
Total	

STATEMENT OF PROFIT AND LOSS ACCOUNTS OF .... BANK LIMITED

for the ......th term as from the ......th day of the month of ...., 193..., to the ......th day of the month of ...., 193...

PROFIT	Yen
Interest on Loans	
Interest on Securities	
Miscellaneous Interest Received	
Discounts	
Dividends	
Trust Commissions	
Guarantee Fees	
Commissions Received	
Profit on Foreign Exchange Bought and Sold	
Profit on Gold and Silver Bullion and Foreign Currencies Bought and Sold	
Profit on Securities Bought and Sold	
Profit on Movable and Immovable Properties Bought and Sold	
Profit on Redemption of Securities	
Commission on Securities Loaned	
Rent Received	
Collection of Bad Debts Written Off	
Miscellaneous Profits	
Unpaid Interest, etc., Refunded	
Total	
Balance from Last Account	
Transferred from Fund for Pension and Relief of Employees	
Total	
Grand Total	

LOSS	Yen
Interest on Deposits	
Miscellaneous Interest Paid	
Interest Refunded	
Discounts Refunded	
Commission Paid	
Guarantee Fees	
Loss on Foreign Exchange	
Loss on Gold and Silver Bullion and Foreign Currencies Bought and Sold	
Loss on Movable and Immovable Properties Bought and Sold	
Bad Debts Written Off	
Depreciation of Securities	
Depreciation of Movable and Immovable Properties	
Refund of Commission on Securities Loaned	
Insurance Premiums	
Miscellaneous Losses	
Rent Paid	
Taxes	
Pensions	
Salaries	
Allowances	
Travelling Expenses	
Miscellaneous Expenses	
Rebate on Bills not Due, etc., Refunded	
Total	
Profit for the Term (Half-year) (Net Profit for the Term)	
Grand Total	

The report covering reserve funds and distribution of profits to be submitted must mention :

(1) net profits for the term ;
(2) balance from last account ;
(3) reserve fund refunded ;
(4) total amount of profit designated for the following items :
  (a) legal reserve fund (imposed by law) ;
  (b) special reserve fund ;
  (c) pension fund ;
  (d) bonus for staff ;
  (e) dividend ;
  (f) balance transferred to next account.

Minute report on reserves for payment of deposits is of the following forms :

DETAILED STATEMENT AS TO THE RESERVE FOR THE PAYMENT OF DEPOSITS

for the ......th term as from the ......th day of the month of ....193...
to the ......th day of the month of .... 193...

The .... Bank Ltd.

1. *Kinds of Deposits*

(a) Outstanding as at end of the term

Current Account and Special Current Account	Deposits on Notice	Fixed Deposits	Sundry Deposits	Total
Yen	Yen	Yen	Yen	Yen

(b) Total amount of all kinds of deposits : Daily average by month.

Month of	Month of	Month of	Month of	Month of	Month of	Monthly Average
Yen	Yen	Yen	Yen	Yen	Yen	Yen

ITEMS OF DEPOSIT RESERVE FUND

Kinds	As at end of the term	*	Average daily balance by month							†
			Month of	Month of	Month of	Month of	Month of	Month of	Monthly Average	
	Yen	%	Yen	Yen	Yen	Yen	Yen	Yen	Yen	%
Cash, bullion, foreign currency, balances with the Bank of Japan, postal transfer savings account										
Balances at banks other than Bank of Japan, call loan, bills accepted by banks										
Government Bonds in hand										
Total										

* Percentage of Deposits Reserve Fund at end of the term to total deposits at end of the term.

† Percentage of monthly average of Deposits Reserves to monthly average of total deposits.

BORROWER IN REGARD TO BALANCES WITH BANKERS, CALL LOAN, BILLS ACCEPTED BY BANKS IN DEPOSITS RESERVES ACCOUNT AS AT END OF THE TERM

Kinds	Borrower	Amount
		Yen
Balance with bankers		

ASSETS AS SET AGAINST EVERY KIND OF DEPOSITS AND OTHER LIABILITIES

Total Deposits Yen Other Liabilities* Yen

Kinds	Outstanding at end of the term	Percentage to total deposits as at end of the term	Percentage to total deposits and other liabilities* as at end of the term
	Yen		
Assets as deposits reserves			
Assets as due from bankers, other than those designated as deposits reserves ...			
Security held as property other than held in hand ...			
(Amount held in hand)			
Bills Discounted ...			
Loans with Collateral security			
Loans with Collateral merchandise ...			

* Liabilities other than capital and reserve.

11. The Court of Justice shall exercise close supervision over the liquidation of banks.

12. The Minister of Finance is empowered to make necessary provisions respecting banks with head offices outside the area, desirous of doing banking business within the area in which the Act is in force.

13. *The Auditors' Book.* This book consists of the record of

investigations compiled by auditors concerning the business and standing of their bank, which is done every quarter of each year, namely January-March, April-June, July-September, and October-December. The book is to be kept at the bank but its duplicate must be sent to the Treasury.

Moreover the auditors are required to record the following matters other than the usual items :

(1) *Loans* to present and former directors, managers or auditors of the bank and their families, relatives, employees and companies in which they are interested.

(2) *Large Loans*. This item is aimed at preventing bank failures in view of the experience that banks often went into bankruptcy on account of having granted a large loan to a single client.

A large loan is specified as a loan granted to a single client, or to a group of his interests, which reaches 10 per cent. of the combined total of the paid-up capital and reserve of the bank.

(3) Big holdings of shares and big amounts of shares held as collateral. (See pages 213-17.)

It is a usual practice of a bank to own shares and stocks of other corporations and to make loans to a company on collateral security of its shares. When the total of these shares reaches an excessively large proportion, compared with the total stock of the company, the relations between the company and the bank become too close, and the bank may be exposed to various risks. It is because of this fear that the banking law stipulates that the auditors of the bank must report this matter to the Treasury.

When the total shares of a company owned or held by a bank amount to 20 per cent. or more of the total stock of the company, the bank's holding is regarded as large.

(4) Credit accounts that are considered as bad.

It is difficult, though important, for a bank to determine bad accounts in its assets ; however, a record is required to be kept in the auditors' book regarding loans with no prospect of their maturing, giving careful consideration to the credit standing of the debtors, the guarantors and the conditions of the securities involved.

Each item entered in the auditors' book regarding bills discounted, loans by way of bills, loans by way of certificates, overdrafts on current accounts, and foreign exchange transactions, is required to be accompanied by full details.

The transactions above referred to are required by law to be strictly supervised by the authorities.

"LOANS" MADE TO PRESENT AND FORMER OFFICERS OF THE BANK AND TO THEIR CONNECTIONS

End of the ......th term as on the ......th day of the month of ...., 193......

The .... Bank Ltd.

Borrower (loaned to)											With or without Collateral					
Kind of the office assumed by present and former officers : Connections	Personal name, Company name or Trade name	Occupation	Bills Discounted	Loans by way of Bills	Loans by way of Certificates	Overdraft on current accounts	Foreign Exchange purchased	Interest-bearing Bills	Other Assets	Total	Amount with Collateral	Unsecured part of the said amount	Amount without Collateral	Guaranty or Endorsement	Marked increase or decrease during this term : its principal reason	Remarks
			Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen		

CREDIT ACCOUNTS THAT ARE CONSIDERED AS BAD

End of the ......th term as on the ......th day of the month of .... 193......

The .... Bank Ltd.

(II) Loans with less prospect of recovery (Specially requiring trouble, expense and time for refundment)

Borrower (Loaned to)		Bills Discounted		Loans by way of Bills		Loans by way of Certificates		Overdraft on Current Account		Foreign Bills bought		Interest Bearing Bills bought				Total		Marked increase or decrease during this term : its principal reason	Remarks
Name	Occupation	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable		
		Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen		

LARGE " LOANS " (DETAILS OF VARIOUS ITEMS AS TO BIG BORROWERS)

End of the ......th term as on the ......th day of the month of ...., 193......

Capital funds—paid-up capital plus reserve funds—Yen

The .... Bank Ltd.

Borrower (Loaned to)			Bills Discounted	Loans by way of Certificates	Overdrafts on Current Account	Foreign Bills purchased	Loans by way of Bills	Interest-bearing Bills	Balances due from borrower	Debentures loaned	Other Assets	Guaranty and Endorsement	Total	With or Without Collateral			Marked increase or decrease during this term : its principal reason	Remarks
Occupation	Name	Connections												Amount with Collateral	Unsecured part of said amount	Amount without Collateral		
			Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen		

SHARE STOCK HELD AS PROPERTY OR RECEIVED AS COLLATERAL IN A LARGE AMOUNT

End of the ......th term as on the ......th day of the month of .... 193......

The .... Bank Ltd.

Name of the Company	Authorised capital	Face Value per one share	The total number of the stock of the company and its unit price			Share stock held as property		Share stock received as collateral to Loans		Total		Percentage of the number of share stock held to the total number of share stock of the company	Marked increase or decrease during this term: its principal reason	Remarks
			Paid-up amount	Total number of stock	Market price of stock	Number of stock	Market price	Number of stock	Market price	Number of stock	Market price			
	Yen	Yen			Yen		Yen		Yen		Yen			

CREDIT ACCOUNTS THAT ARE CONSIDERED AS BAD

End of the ......th term as on the ......th day of the month of .... 193......

The .... Bank Ltd.

(I) LOANS WITH NO PROSPECT OF RECOVERY

Borrower (Loaned to)		Bills Discounted		Loans by way of Bills		Loans by way of Certificates		Overdraft on Current Account		Foreign Bills bought		Interest Bearing Bills bought				Total		Marked increase or decrease during this term: its principal reason	Remarks
Name	Occupation	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable	Outstanding	Irrecoverable		
		Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen	Yen		

On the page opposite is a condensed balance sheet of the Mitsui Bank, which may be taken as a specimen.

Clearing House

Japan saw its first clearing house in Osaka in 1879, and its second in Tokyo in 1887, after an interval of eight years.

In the beginning of the Meiji era cash transactions were still the common practice. No transactions in bills or cheques were conducted on a significant scale. Credit must be given to Viscount Shibusawa, who strenuously encouraged paper transactions, first among business men at large and afterwards in the trading community in general. His efforts were crowned with success, as bill transactions increased until the clearing house was called into being. The Tokyo clearing house was initiated by the Bankers' Association, having as its first president Viscount Shibusawa. Later, other cities followed suit until in June 1934 there existed forty-three clearing houses in Japan. The total bills cleared throughout the country in 1933 reached 36,785,658, valued at 66,771,199,000 yen. Compared with 1932 there was an increase of 2,645,000 bills (7·7 per cent.) and of 14,073,000,000 yen (26·7 per cent.). The amount of bills cleared in Tokyo, Osaka and other cities and their value from 1923 to 1935 are indicated in the table below :

BILLS CLEARED AT THE CLEARING HOUSES THROUGHOUT THE COUNTRY

(000's omitted)

Year	Tokyo		Osaka		Total (Others included)	
	Number of Bills	Amount	Number of Bills	Amount	Number of Bills	Amount
		Yen		Yen		Yen
1923 ...	10,532	30,715,120	8,611	23,993,188	28,791	68,058,429
1924 ...	11,463	30,739,301	9,298	26,830,403	31,499	73,956,977
1925 ...	13,041	37,320,356	9,619	27,577,761	34,274	83,338,305
1926 ...	14,307	39,460,447	10,279	28,386,749	37,622	88,792,553
1927 ...	12,517	27,327,475	9,393	20,130,091	34,387	62,556,120
1928 ...	13,117	31,126,238	10,009	21,684,365	36,944	68,592,995
1929 ...	13,525	25,070,553	10,390	22,374,043	38,338	63,343,632
1930 ...	12,721	21,366,617	9,725	17,889,655	36,146	51,376,234
1931 ...	12,408	21,593,184	9,280	14,432,147	34,631	46,022,042
1932 ...	12,646	26,562,718	9,471	15,624,537	34,387	52,751,946
1933 ...	13,577	31,549,888	10,412	22,175,225	37,296	66,871,898
1934 ...	14,253	25,338,571	9,547	24,438,933	37,739	64,376,620
1935 ...	15,153	25,512,016	10,472	22,668,248	40,563	63,800,502

THE MITSUI BANK LIMITED

CONDENSED BALANCE SHEET December 31, 1935

Dr. | *Cr.*

Liabilities		Yen	Assets	Yen
Deposits (Current, Fixed, etc.)		796,293,049·15	Cash in hand and at the Bank of Japan, etc.	55,985,859·40
Foreign Bills sold		705,617·08	Money at Call and Short Notice	29,630,000·00
Due to Foreign Banks (including Discounts)		19,098,263·48	Government Bonds	165,740,308·08
Due to Inland Correspondents		1,177,529·35	Municipal and Other Bonds	151,256,920·10
Outstanding Cheques		317,562·84	Stocks	350,000·00
Liabilities under L/C, etc.		9,234,652·20	Foreign Government Bonds, etc.	20,862,342·60
Interest accrued on Deposits not due ...		7,596,671·31	Loans and Discounts	451,766,280·16
Rebate on Bills not due		2,092,741·21	Foreign Bills purchased	63,540,861·75
Provisional Receipts, etc.		1,332,541·28	Due from Foreign Banks	3,134,919·47
Capital		100,000,000·00	Due from Inland Correspondents	729,489·31
Reserve Funds		57,800,000·00	Customers' Liabilities under L/C, etc., *per contra*	9,234,652·20
Pension Fund		289,952·95	Provisional Payments	1,978,643·62
Profit for the half-year		13,123,826·90	Bank Premises and Real Estates	14,852,131·06
Including—			Capital uncalled	40,000,000·00
Balance from last Acct.	8,644,884·73			
Transferred from Pension Fund	60,047·05			
		1,009,062,407·75		1,009,062,407·75

APPROPRIATION OF PROFIT

	Yen		Yen
Reserve Fund	1,000,000·00	Profit for the half-year	13,123,826·90
Pension Fund	100,000·00		
Bonus	280,000·00		
Dividend to Shareholders	2,400,000·00		
Balance carried forward to next Account ...	9,343,826·90		
	13,123,826·90		13,123,826·90

CHAPTER XIII

Savings Banks

To refresh the reader's memory, it is well to consider the word "saving" before taking up the discussion of the Savings Bank. This word has two meanings which apply to two different kinds of acts, but are often mistaken for one another.

The first meaning is more common and is used for the act of economising, signifying the act of satisfying our wants by consuming as sparingly as possible; hence it is equivalent to *consumption economised*. The second meaning is more scientific and used for the act of abstaining, signifying the act of postponing the satisfaction to some future time; hence it is equivalent to *consumption postponed*.

It is the second meaning that we shall discuss here. Man puts something by for future consumption, puts something aside for the morrow, because of his foresight. This prudence and wisdom combined are inherent in every race and to the utmost in the Japanese people.

Now we shall go a step further into the conditions of saving in order to see to what extent the Japanese people are aided and encouraged in their savings.

1. To save, there must be a certain degree of foresight in the saver.

This is true in this country and seems to be an inborn characteristic of this race.

2. To save, labour must be productive beyond the yield of the necessaries of life.

This condition arose only after the advent of money economics, when division of labour became more marked and the people began to produce over and above their individual, immediate wants—to produce for profit.

3. To save, there must be a certain quality in the thing saved: it must be preservable.

This condition explains why in the rice era—when rice was

used as medium of exchange—saving was not extensively practised by the people. Only in the era of metal money did the people begin to put aside their earnings, because metal money, unlike other things, is capable of being preserved without any depreciation of value.

4. To save, there must be some instruments to facilitate saving, such as institutions to take care of the savings for the people.

This condition was not realised in Japan until the establishment of savings banks, in spite of the fact that well-to-do people mostly built an especially safe place in which to keep their valuables and accepted for custody the valuables of others. We can see even today in every town many of these fireproof, strong rooms, massively constructed and detached from dwelling-houses, in the compounds of the owners—often pawnbrokers—which have every appearance of a safe. But this is not a savings bank.

During ancient times, owing to the hazards from fire, theft, earthquake, flood and other natural calamities, the people were not much encouraged in the art of saving. What little they had was mostly kept in the form of hoarded specie. Naturally it would frighten most of the owners to let their savings out of their own keeping. Many people consequently preferred to hide their savings away, thereby rendering the funds unprofitable both to themselves and to their community. By hoarding and hiding the precious metals they became in consequence poorer and made others poorer too, hence society existed in the midst of poverty, until the notion of gain sprang into existence. The idea came when society passed out of self-sufficiency and entered into a more refined state, rendered possible by the intercourse of trade and commerce.

First came the interest on money. That gorgeous idea enticed the hoarded specie out of its hiding-place. Then came the mania for speculation and that insatiable goddess of gain brought into play gambling and other kinds of doubtful ventures. Other causes also gave impetus to this practice. Bad government, backward industry and all kinds of uncertainties combined to convert precaution into reckless employment of funds; while those who could not afford the extravagance of gambling experienced great difficulty in finding some way for the surplus to be employed.

In Europe in the seventeenth century a man of liberal profession or a retired trader who had saved a few thousand and wished to place his savings safely and profitably was also at a

loss what to do. Most of them went in for real estate and lent their savings on mortgages, but landed property of value did not increase so fast as the savings of the people for which they sought employment. Moreover, this sort of investment often involved a considerable length of time and legislative complications in the end, which made it not very attractive. Since the majority of the owners wished to place their money where they could get it back when they wanted it, they looked about for the sort of property which could be more readily transferred than a house or field. In consequence, pawnshops and all kinds of usury came into practice, as these capitalists found it more to their liking to lend on the security of valuables than on estate mortgages ; finally, usury became a pest of society. But even with all the drawbacks in the lack of ways and means of employing savings profitably and safely, saving did not lessen, and capital piled up increasingly ; so much so that the owners of surplus funds rushed into anything that offered big promise. The possibility of immense gains propelled the owners into all sorts of undertakings, until it became a rush for ruin instead of for gold.

The first taste was for high interest, but that taste was soon superseded by love of speculation, and the gambling mania became chronic until stopped by a crack-up.

So long as the savings remain in possession of the owners the whole hazard of gambling in speculative undertakings is the only result. The demand for a place of safety where funds can be lodged and withdrawn at a reasonably short notice, and where funds can be employed in tested investments whose profit can be shared by the owners, gives birth to the savings banks, whose business is to collect from all directions small savings scattered all over the country, and to accumulate them to an amount sufficient for profitable investment. In Japan, as elsewhere, it was during the era of the rush for gain that the savings banks arose, but they did not become significant until long afterwards, not until the Government was face to face with the adverse effects resulting from hoarding, from speculative mania and from extravagant savings chiefly during the period of depression.

As long as savings are left to take care of themselves, hoarding must result. From the standpoint of currency, hoarding creates undesirable effects. It may raise or lower prices, the fluctuation of which is harmful to society.

If hoarding is being done on an extensive scale, much of the capital funds are withheld from circulation, which means less

current money. Each unit of currency, then, has to do more work, in other words becomes dearer, resulting in the fall of commodity prices. If this decline is carried too far, which is probable, depression sets in and stagnation of trade and industry ensues.

To avert this undesirable state of business the Government may have to throw more money upon the market until a stage is reached when it is difficult to maintain the specie reserve, as the security reserve would likely increase out of proportion. With a view to avoiding excessive inflation the Government usually calls in foreign capital to prop up its specie reserve.

Furthermore, the time may come, chiefly when slight inflation occurs—boom time—when enormous hoarded funds will emerge from their hiding-places to be thrown upon any investment with a bright promise. Speculation then becomes rampant. These funds, together with the foreign capital, may combine to jostle the market out of equilibrium, and the result is rising prices.

It is an accepted principle that "all new unemployed savings require either an increase in the stock of precious metals or an increase in the efficiency of banking expedients, by which these metals are economised."

This implies that, in a saving period, gold is accumulated in hiding-places, hence its efficiency is augmented. If there is no possibility of increasing or obtaining banking efficiency, as was the case in former times when banking was in its infancy, no economising of precious metals can be effected, and the undesirable results of deflation are inevitable ; that is to say, diffusion and dilation of the purchasing power of currency occur.

No Government can afford to defy depression in trade and industry ; it will rather face inflation than deflation, especially when that deflation is caused by excessive hoarding.

Though plentiful money is necessary to high prices and possesses a natural tendency to produce these prices, yet inflation can be avoided if currency is not left to take its own course. The policy of the Government would be not only to prevent the additional money from being thrown on the market for speculative ventures, but to create a satisfactory mode for its employment.

It is the Government's responsibility, therefore, first, not only to call forth hoarded money but to prevent its hoarding, thus avoiding its untimely use ; secondly, to direct the employment of these funds in a satisfactory manner.

It was with these ends in view that postal savings were initiated.

In Europe the savings institutions did not go beyond the end of the eighteenth century and the oldest savings establishment recorded was that of Hamburg, which was founded as early as 1705, but it was not a savings bank in the modern acceptation of the term. It merely provided a place of safety for the small savings of the wage-earning class. It took their savings and granted them annuities when they reached a certain age. It did not permit a withdrawal of deposits. The savings institution which most resembled a modern savings bank was that of Berne, established in 1787. England copied the Swiss system and the first English savings bank was organised in 1810. Afterwards, both the U.S.A. and France took the English model, and savings banks were instituted in both countries in 1816 and 1818 respectively. In India the first savings bank was opened in 1833. The ancient institutions were privately owned, but afterwards the Government concerned took steps in restricting the savings functions, and legislation developed.

In Japan, through legislation and banking evolution, the line of distinction between savings banks and commercial banks is nearly obliterated, as one institution has done all the business. Yet the functions of these two types of bank are fundamentally different. For instance, commercial banks serve the business man and savings banks the man of small earnings.

Savings business is one of the most lucrative, hence in Japan in the nineteenth century savings service was tacked on to the commercial banking, and then reckless competition ensued until the Government was obliged to promulgate a law adjusting the operations of commercial and savings banks in 1890.

We shall now come to the third step regarding the classification of savings institutions. Since the savings business proves highly profitable, there appear many kinds of savings establishments, such as:

(1) Mujin.
(2) Stock savings banks.
(3) Postal savings banks.
(4) Co-operative credit organisat

Mujin is a kind of co-operative organisation designed to give financial aid to its members. This is called in Japanese *Mujin*, the prototype of which was the Chinese institution. It was established in Japan as far back as 1275. However, it was not until 1387 that its practice actually flourished.

The stock savings bank is a corporation organised for profit, so two distinct classes of liabilities exist :

(a) To the stock holders, owing to the capital they have invested.
(b) To the depositors who have placed money with the bank.

This class of savings bank of private creation existed in Japan long before 1875, when the Government organised the postal savings bank ; but it was mixed up with other kinds of banking business, and so no trace is to be found of the systematised private institution until 1877, when the Tokyo savings bank (Tokyo Chozo Ginko) was established.

The postal savings system was born in Japan in 1875, when the Government recognised the importance of the savings business. Since then every post office has handled savings service and undertaken to pay a specified rate of interest on deposits, also to return the fund to the depositors upon the necessary notice of withdrawal.

It should be remembered that the postal savings service was established in the U.S.A. in 1910, but in Japan in 1875.

The co-operative credit organisation or credit union is for the purpose of promoting thrift and supplying credits to its members on the strength of their character and through the co-operative organisation which exists for the purposes of savings and lending. In Japan the movement dates back to the fourteenth century, long before the Raiffeisen banks of Germany.

Speaking of credit union, Mr. J. H. Hamilton confirmed its usefulness in the U.S.A. in these terms :

" It [the credit union] has regenerated and accelerated agriculture, commerce and industry. It has stamped out usury and raised millions of human souls from the depth of despair to lives of hopefulness and service. It has supplanted shiftlessness by industry ; improvidence by thrift ; intemperance by sobriety ; selfishness by neighbourliness ; individual action by concerted action—in fact, has proved to be one of the most potent moral, educational, and social forces in the history of civilisation and in the enrichment of the life of the common people."

This kind of institution was organised in the U.S.A. in 1909. In Japan it was first established in the *Tempo* era (1830-44). Details of this organisation are given in the chapter on special banks.

With regard to the relations between savings banks and commercial banks, Dr. Conant says :

" Savings banks are in a sense further removed from commercial banking than almost any other class of banks, but their large accumulations of current savings and their purchases of negotiable securities give them an influence in the market for capital which cannot be ignored. Almost invariably savings deposits are repayable only upon notice, and deposits so much exceed withdrawals that no considerable reserve in legal tender money is required. Occasions sometimes arise, however, in which even savings banks feel the need of ready cash. This would be the case in Great Britain if there should be large demands for the repayment of deposits such as actually occurred in France in 1902 and 1903, for the deposits in British postal savings banks are subject to repayment at call. In most countries the principal subject of savings bank investments is Government bonds or mortgages on real estates."

" The gain of the State has proven a loss of depositors, for it has caused a continual rise in Government stock and a corresponding decrease in interest."—(J. H. Hamilton.)

In Japan during the nineteenth century when ordinary banks gained ground the savings banks also increased by leaps and bounds in spite of the fact that those ordinary banks also did savings business. When the National Bank Act came into force there existed an important private savings company which was receiving deposits in small amounts at compound interest. This company reorganised itself into a national bank, which assumed business in 1877 under the title of the Tenth National Bank, and handled savings service as a side issue. This method was followed thereafter by a number of national banks. The profitable business of savings service gave birth to another company called the Tokyo Savings Bank (Tokyo Chozo Ginko), which was established in 1877 with the purpose of specialising in this line. This bank is the only prototype of the systematic and specialised savings banks in Japan. Thirteen years before the enactment of the Savings Bank Law of 1890 this bank came into being. As the late Viscount Eiichi Shibusawa was a great benefactor of the present banking system of Japan, so also was the late Mr. Rokuro Hara, the founder of Tokyo Savings Bank. He founded the bank with only a small capital of 20,000 yen.

Since then more and more ordinary banks have started to do savings business, and steadily and rapidly this additional activity came to be adopted by the majority of the ordinary

banks. To meet the situation, in view of the social and economic importance of this business and in order to divide the functions of the deposit banks and the savings banks into two distinct categories, the Government then decided to forbid any institutions other than those already existent to do the savings business unless a Government licence was obtained therefor. However, applications for licence were so numerous that the Government had to issue a decree in March 1890 stipulating that a savings bank was required to have a capital of not less then 50,000 yen and no less than five shareholders who would assume unlimited liabilities. The bank was to be placed under the strict supervision of the Prefectural Government. In April of the same year the Government passed the Savings Bank Act which took effect in 1893, providing that—

(1) A savings bank must have a paid-up capital of not less than 30,000 yen.

(2) All its directors must assume unlimited liabilities.

(3) It may receive savings deposits of less than 5 yen.

(4) It must deposit with the Government at least one-half of its paid-up capital as reserve.

(5) Investment operations of its funds were limited to the following :

(*a*) making loans and advances ;

(b) discounting bills ;

(c) investing in Government (both central and local) bonds.

This Act was revised and amended many times and finally replaced by a new Act of 1921, which came into force in June 1922.

The principal provisions of this new Act are :

1. A savings bank must be a joint stock company with a minimum capital of 500,000 yen.

2. It must use as its trade name the words " Savings Bank."

3. No institutions other than savings banks are allowed to receive savings deposits.

4. A savings bank may receive deposits of less than 10 yen.

5. A savings bank cannot receive current deposits except from public agencies and co-operative societies.

6. It can operate on national and local government bonds or

the debentures of special banks and corporations on the instalment plan.

7. As guaranty of the repayment of deposits, a savings bank is required to place with the deposit bureau of the Ministry of Justice a sum of at least one-third of the combined amount of ordinary savings and fixed deposits, of periodic deposits (*Teiki Tsumikin*, which means a deposit to be received periodically according to agreement under a promise of the bank to pay a certain sum at a certain time—usually three years), of deferred deposits (*Suyeoki Chokin*, which means deposits to be received periodically or several times—more than twice—during a certain period with fixed date for repayment), and of current deposits at the end of a business term, provided that securities other than Government bonds may be substituted to the extent of one-fifth of the combined amount.

8. Deposits of the savings banks with the Deposit Bureau may be counted as a part of the deposit money received by the bank.

9. Those who have periodic deposit accounts with a savings bank and those depositors who have made contracts with the bank to purchase securities by instalments are entitled to a priority in their claims for repayment from the deposit money of that bank lodged with the Deposit Bureau.

10. The investment operations of the funds of a savings bank are confined to the following:

(a) To subscribe for, underwrite or purchase national and local government bonds and debentures and the stock of corporations approved by the Treasury and to make loans on the above securities.

(b) To make real estate mortgage loans.

(c) To make loans to its depositors to the extent of their industrial deposits.

(d) To make loans within the limit of the deposit (amount of deposit contracted for) to a person making periodic deposits, provided that loans in excess of the amount paid in are secured by collateral or guaranty.

(e) To make loans, up to the amount already paid in, to a person who has contracted for the purchase of securities on instalment plan.

(f) To make loans, redeemable within a period of one year, to local governments.

(g) To make loans redeemable by instalments within a

period of two years, provided that the total amount of this class of loans should not exceed 20 per cent. of the combined amount of the bank's paid-up capital and reserve funds, that such loans to one person should not exceed 1,000 yen, and that repayment of such loans should be pledged by two or more guarantors.

(h) To deposit money with other banks or trust companies, or the Deposit Bureau of the Ministry of Finance, or the post office.

(i) All securities held must be deposited with the Trust companies.

11. The amount of investments of a savings bank is subject to the following limitations, in order to prevent too great a concentration of investments or loans in a single enterprise, or a particular line of business, or an individual.

(a) The amount of shares of a certain company, owned by a savings bank or received by it as guaranty for its loan or deposits, shall not exceed one-tenth of the total share stock of such company. (There is no restriction of this nature in the case of ordinary banks.)

(b) The total sum loaned or advanced to one person is limited within 10 per cent. of the combined amount of the paid-up capital and reserve. (There is no restriction of this nature in the case of ordinary banks.)

(c) The total amount of all the mentioned loans and advances must not exceed the combined amount of the paid-up capital and reserve.

(d) The total amount of money deposited with each bank or trust company, of the purchase of bills accepted by that bank or that trust company and of the securities deposited with that trust company must not exceed 10 per cent. of the combined amount of all classes of deposits, and also must not exceed 25 per cent. of the combined amount of the paid-up capital and reserve funds of that bank, or trust company.

12. Directors of a savings bank are under joint and unlimited liability for all the obligations of the bank ; the liability being effective for two years after resignation.

13. The maximum period of any contract covering savings deposits is limited to five years.

14. Savings banks are exempted from a half of the business profit tax, and interests from savings deposits are exempted from income tax.

15. Auditors' book is to consist of:

(a) Loans to the present and former officials of the savings bank and their connections.

(b) The credit accounts that are considered bad.

As a result of this Act many small savings banks have been amalgamated, resulting in a considerable reduction of this class of banks.

The development of the savings banks and also of the postal savings banks is indicated in the table on pages 232-3.

Postal Savings Bank and the Deposit Bureau of the Treasury

In view of the fact that the postal savings system is being operated by the Government, thus enjoying a tremendous credit backing, special care is taken to keep the rate of interest on all deposits as low as possible—fixed at 3 per cent. as against 3·3 per cent. on time deposits of the ordinary banks—and the maximum account allowed is only within 2,000 yen ; so that the system may not encroach too much upon the field of ordinary banking.

The amount of postal savings at the end of 1935 totalled 3,112 million yen, while the number of depositors was 45,407,000; that is to say 65 yen per depositor was the average.

The Deposit Bureau of the Treasury is authorised to control and operate all the postal savings deposits, as well as other deposit resources and surpluses in the special account of the Government. The investments of the funds of the Deposit Bureau are made by a committee appointed by the Financial Minister and the Bank of Japan, which acts in the capacity of the former's cashier.

The Statement of Assets and Liabilities of the Deposit Bureau at the end of February 1936 is given in the table on the opposite page.

The funds of the Deposit Bureau are to be invested only after the approval of the Committee on Investments of the Deposit Bureau. In former days some laxity prevailed in the policy of this Bureau, hence a principle was afterwards established to the following effect:

> All the funds of the Bureau are to be invested solely for the benefit of the State and the people in the safest and most profitable manner.

At present the major portion of the funds are placed in national and local government bonds. This fact shows clearly to what extent the funds of the Deposit Bureau come to the financial assistance of central and local government.

The Bureau also acts as a source of funds for official banks and semi-governmental corporations, by purchasing the latter's bonds and debentures and making loans and advances. In various ways the Bureau acts as agent for the Government, such as on occasions when the Government thinks fit to supply funds to particular agricultural, industrial and commercial undertakings.

STATEMENT OF ASSETS AND LIABILITIES ACCOUNTS OF THE TREASURY DEPOSIT BUREAU AT THE END OF FEBRUARY 1936

	In million yen	Per cent.
ASSETS		
Government Bonds	1,740	40
Local Bonds (Prefectural and Municipal Bonds)	977	23
Debentures of Special Banks or Corporations	834	19
Loans	510	12
Foreign Government Bonds	34	1
Deposits (Domestic and Foreign) ...	138	3
Interest and Other Payments	102	2
Total	4,338	100
LIABILITIES		
Postal Savings, etc.	3,237	76
Special Government Accounts and Other Deposits	464	10
Reserve Funds	460	10
Revenue	176	4
Total	4,338	100

PRINCIPAL ACCOUNTS OF SAV GS BANKS AND VOLUME OF POSTAL SAVINGS
(In thousand yen)

Years	Number of Banks	Paid-up Capital	Reserve Funds	Deposits	Loans	Investments	Postal Savings
Meiji A.D.							
26 (1893)	24	566	25	6,035	1,066	2,123	24,815
27 (1894)	31	683	63	6,871	675	2,401	24,962
28 (1895)	92	1,899	104	12,178	2,728	—	27,748
29 (1896)	193	5,049	303	20,674	8,088	4,818	28,078
30 (1897)	312	10,698	812	33,044	22,360	7,083	26,335
31 (1898)	418	14,966	1,371	42,707	31,486	13,666	22,492
32 (1899)	531	19,979	2,188	67,641	48,185	17,328	23,335
33 (1900)	681	26,834	2,907	78,882	63,715	14,524	24,015
34 (1901)	714	29,508	3,462	74,210	60,880	21,348	27,009
35 (1902)	701	28,831	3,548	84,966	62,962	—	28,804
36 (1903)	688	34,924	5,403	106,707	82,229	27,714	31,471
37 (1904)	674	37,360	6,689	120,760	87,119	33,252	38,779
38 (1905)	683	39,443	7,771	153,818	101,047	46,537	52,836
39 (1906)	686	42,811	9,876	200,661	126,341	61,867	72,266
40 (1907)	676	47,519	11,421	218,743	148,771	67,228	91,531
41 (1908)	669	49,523	13,126	214,974	147,242	67,554	105,330
42 (1909)	660	51,825	15,023	248,679	153,794	79,956	123,379
43 (1910)	646	53,532	16,865	277,683	171,873	88,806	161,026
44 (1911)	646	55,926	18,752	311,983	202,451	95,702	183,513
Taisho							
1 (1912)	639	59,026	20,584	333,929	232,096	98,480	197,293
2 (1913)	648	68,054	23,423	356,079	261,866	99,418	195,673
3 (1914)	558	77,413	26,400	376,066	293,156	97,222	195,896
4 (1915)	657	120,944	42,432	528,939	437,671	130,788	221,842

5 (1916)	664	126,139	45,706	687,539	514,231	185,713	298,565
6 (1917)	663	143,331	51,848	932,948	669,775	238,468	416,947
7 (1918)	661	165,337	58,873	1,288,529	952,500	296,468	562,628
8 (1919)	656	221,186	68,671	1,777,547	1,466,820	338,606	698,162
9 (1920)	661	320,308	92,658	1,843,001	1,597,592	380,151	847,003
10 (1921)	636	325,728	99,747	1,945,990	1,618,758	485,558	906,726
11 (1922)	146	33,659	15,549	651,245	186,372	305,511	976,375
12 (1923)	139	34,023	18,637	693,561	202,449	353,914	1,102,129
13 (1924)	136	36,397	21,309	793,513	188,051	443,925	1,099,719
14 (1925)	133	37,647	23,962	904,605	191,882	526,650	1,134,324
Showa							
1 (1926)	124	41,138	27,414	1,067,552	264,676	603,658	1,162,358
2 (1927)	113	42,915	31,062	1,101,474	297,019	691,920	1,525,294
3 (1928)	100	40,722	33,711	1,241,216	335,569	782,211	1,743,134
4 (1929)	95	40,577	34,638	1,421,887	406,638	895,864	2,057,960
5 (1930)	90	41,653	33,871	1,539,252	477,603	948,679	2,349,315
6 (1931)	88	43,131	36,704	1,635,622	467,215	1,013,766	2,616,533
7 (1932)	87	43,668	38,906	1,687,799	405,895	1,155,625	2,693,673
8 (1933)	85	47,243	43,180	1,821,012	349,049	1,317,715	2,797,551
9 (1934)	79	47,105	47,641	1,879,980	335,134	1,390,893	2,949,901

VOLUME OF POSTAL SAVINGS AS FROM 1875 (when the system was inaugurated) TO 1892

Years	Out-standing	Years	Out-standing	Years	Out-standing	Years	Out-standing
Meiji A.D.		Meiji A.D.		Meiji A.D.		Meiji A.D.	
8 (1875) ...	15	13 (1880) ...	622	18 (1885) ...	9,050	23 (1890) ...	19,514
9 (1876) ...	41	14 (1881) ...	821	19 (1886) ...	15,462	24 (1891) ...	20,149
10 (1877) ...	100	15 (1882) ...	1,058	20 (1887) ...	18,213	25 (1892) ...	21,854
11 (1878) ...	286	16 (1883) ...	2,298	21 (1888) ...	19,758		
12 (1879) ...	494	17 (1884) ...	5,260	22 (1889) ...	20,441		

CHAPTER XIV

Hypothec Bank, Agricultural and Industrial Banks, and Hokkaido Colonisation Bank

As previously indicated, the modern system of banking in Japan owes its existence solely to Prince Matsukata, who took the best possible course to reorganise the whole financial structure of the country. A further proof of his ability and foresight is revealed in the fact that, having created the hub of the financial wheel in the shape of the Bank of Japan, he lost no time in fixing in the spokes.

After having promoted and regulated the functions of ordinary banks and savings banks, he turned his attention to the special banks, which were the missing spokes of his wheel of finance.

Before 1895 the creation of the special banks could not very well have been attempted, simply because Government bonds stood at a considerable discount and the confidence in Government finance was not yet sufficiently established to enable it to raise funds on advantageous terms. By 1895, however, Government credit was much improved and raised to a high level, adequate for the purpose of carrying out Prince Matsukata's proposed project. Besides, other causes also acted in his favour. The war with China had brought about a great demand for long-term loans, as many prospectors were in the field for new enterprises. The existing ordinary banks could not, with safety, undertake such accommodation, hence there was a very striking lack of response to the call of capital. Prince Matsukata at once seized the opportunity, and initiated the special banks as semi-official institutions. The Hypothec Bank (Nippon Kwangyo Ginko) was therefore organised after the French model of Crédit Foncier.

Japan was at that time an agricultural country, and agriculture was the most important economic activity of the people; but so far it had not received proper and adequate

attention and assistance from the Government or from the banking institutions already established. So large an amount of money was required by the agricultural community that it was wellnigh impossible for either the Government or banking institutions to provide fully for the need. Though the aggregate amount of funds was large, it was composed of small demands from multiple individual farmers whose personal requirements were too small to attract the attention of a bank or any individual investors, except perhaps some small capitalists who lived on usury.

The funds needed by a farmer can be divided into three classes, viz. :

(1) long-term credit with which to purchase land or to carry out improvement on the land already acquired ;
(2) intermediate credit with which to purchase seeds, fertiliser or equipment, or to make minor improvements ;
(3) short-term credit with which to meet the expenses incurred in harvesting and marketing the crop.

Credits number 2 and 3 could be met by commercial banks or private money-lenders, but credit number 1 needs a special institution which deals only in long-term operation.

In a country where a sizable tract of land can be obtained from the Government by paying a small sum for the formalities, as in Siam or in South American countries, credit number 1 does not amount to very much, but in Japan with its dense population free land diminishes rapidly until all land is owned by individuals or corporations. It is very difficult for farmers to obtain land for a moderate sum, hence credit number 1 comes to a large amount. In addition, owing to the poor quality of the soil in Japan, proper farming does not pay unless drainage and fertilising are undertaken, and this costs money which goes to swell credits numbers 2 and 3. Since the ordinary farmer is generally poor, it is necessary for him to borrow either on the strength of his character or against the security of a mortgage on his property. But it is not always easy for him to find a lender, unless he pays an exorbitant rate of interest. In this way the farmer is generally heavily indebted, and if the Government does not come to his rescue, he more or less falls into the clutches of loan sharks.

Moreover, so far as banking loan funds are concerned, when once a mortgage is contracted the loan is locked up, unless facilities are provided whereby the lenders may rediscount the

mortgage in case they require funds for any purpose. The demand for this sort of loan in Japan was so great that a usurious rate of interest was charged. Enticed by the sound security and the high rate of interest national banks and some private banking houses threw aside precaution and indulged in these long-term operations. The consequence was the locking-up of so much loanable capital that liquid funds were short, resulting in the collapse of many banking houses.

Though mortgage loans are not separated by any line of demarcation from other banking investments, such loans rest on a kind of security which is difficult to realise and susceptible to eventual depreciation. Owing to this fact careful bankers, whose deposits are subjected to demand at short notice, look askance at mortgage business. But the total sum of mortgage loans amounts to such a mass of business that the bankers are always tempted thereby.

The value of such loans depends on the character of the borrower as well as on the economic nature of the security. For these two reasons the immovable properties which are used as the basis of mortgage operations are classified by Courcelle-Seneuil under three principal categories:

(1) Arable land. This class of property yields only a paltry revenue, but the market for it is wide and its price is fairly constant.

(2) Urban buildings meant for residence or rent. This class of property produces better revenue and admits of easy transfer, but its price is variable.

(3) Industrial buildings situated either in town or country. This class of property is variable both in revenue and price because it is subject to a restricted demand of a capricious nature and is not easily marketable.

The second and third categories are risky for mortgage business. But it is just these two classes of property that the bankers mostly take up, because they open the way to commercial accounts and bring in banks' customers. A manufacturer or an entrepreneur who borrows on this security often opens an account with the lending bank. Unless the deposits are long-term and the banks are not subjected to short demand, the surplus funds usually find their way into this sort of investment, which eventually results in difficulty to the lenders. Owing to the fact that this class of security only finds a buyer on special occasions, the borrowers and lenders are obliged to

prolong their contracts by renewals. In this way the funds are further and further locked up, resulting in "tightness" of money available for the farmers who seek it. Consequently the difficulties of the agriculturists are not relieved by the ordinary banks. All sorts of remedies have been resorted to in foreign countries, and the most effective of all is the mortgage bank, which is especially designed for long-term loans and acquires its capital funds for such operations.

"A mortgage bank is an institution which lends money on real estate."—(Conant.)

These banks were first organised on the continent of Europe with the object of introducing credit into mortgage funds by the conversion of the mortgages into negotiable bonds.

The essential features of a mortgage bank are (1) the expansibility of the mortgage loans by new sales of bonds to the public, avoiding thereby the necessary increase of the bank's capital without a serious increase in its risks, provided of course that reasonable precaution is taken in making loans; (2) the divisibility of the ownership. That is to say, many investors enjoy jointly the ownership. Each one has his share, which is separate and independent; hence he can turn his part into cash, whenever he wants, at a price comparatively stable. Whereas a single ownership or a single mortgage can only be transferred *in toto* and can find a buyer with difficulty.

The development of agriculture and its allied industries owes a good deal to this institution which, in a sense, revives dead capital by using its credit. Though credit does not create wealth, it allows the same wealth to be used over and over again, and this process is possible by the help of mortgage bonds.

The ingenious Mexican financier Casasus said:

"Mortgage bonds (*Bons hypothécaires*) work a complete transformation in mortgage securities. They release them from all the troublesome formalities with which civil legislation has surrounded them. They simplify their mechanism and raise them to the dignity of the commercial law. The debts which they formerly represented, which remained stationary, so to speak, in the power of the creditor without his being able to draw from them any new profit, acquire the advantage of available capital capable of a new series of commercial operations with large profits to the community."

Of all the securities which a debtor can offer to his creditor, real estate is apparently the most sound. Yet it is the most difficult to get a loan on this security. Hence various efforts

were directed in the middle of the eighteenth century towards raising the credit of the owners of land to the rank of public credit and giving to the loans on such security the same advantages as public debt by means of rendering :

(1) the title deeds well-known and universal ;
(2) the ownership divisible ;
(3) the negotiation easy and advantageous ;
(4) the payment of interest regular.

But the efforts in various countries have been crowned with only a partial success. Even today the loans on security of real estate meet a great deal of difficulty and formality.

It was in Germany that after various efforts the first mortgage bank was organised in 1770 in Silesia to relieve the big landowners of the burden of heavy debts. It took forty years before the experiment bore fruit and the success was entirely due to the Government, which gave it every assistance. All mortgage banks, which deal in real estate mortgages, in every country owe their origin to the German model.

It should be emphasised that the aim of a mortgage bank is to serve a class of people who cannot get accommodation from the commercial banks, such as landowners, peasants and farmers. A mortgage bank borrows from the public by the sale of bonds, and lends to the public on real estate security or to small towns or other local political corporations, putting up the mortgages and the securities it receives, as well as its own capital, as guaranty for its bonds. Some of the mortgage banks confine their business to city real estate and others to country estate, and nearly all of them lend a considerable amount to local governments.

" The Crédit Foncier de France, the principal mortgage bank in France, has mortgage bonds out to the amount of about $350 millions ; the thirty-seven mortgage banks of Germany have obligations of $2,825 millions ; the land mortgage banks of Austria-Hungary have debentures of nearly $40 millions and the mortgage bank of Spain has similar obligations of $17 millions. These institutions practically bring into the security market a large part of the land values of Europe. A mortgage bank of this sort is able every few months to offer in the market a block of securities which are eagerly subscribed for by those seeking a safe and steady investment. Against such obligations the issuing company is compelled to redeem its issues at the fixed dates of maturity."—(Conant.)

The Crédit Foncier, which is the prototype of the Hypothec Bank of Japan, was established in 1852 with a State subsidy of 10 million francs. Before this time there existed already a company called Banque Foncière which was granted exclusive rights for its operations as a land bank. This bank was reorganised as the Crédit Foncier in 1852, and in 1861 it created a separate company called Crédit Agricol with branches in different parts of France, in order to extend its activity beyond the limit prescribed by the Statute of the Bank. But in 1876 the mother company had to absorb the Crédit Agricol, which was on the point of bankruptcy owing to unhealthy speculations, such as a loan to the Government of the Khedive of 168 million francs. The Statute of the Crédit Foncier was then revised in 1879 to permit a wider scope of business. In 1882 the bank also absorbed the Hypothec Bank of France, founded in 1879 with a capital of 100 million francs. The line of development of Crédit Foncier was very similar to that of the Hypothec Bank of Japan, as the reader will see later.

Before the advent of the Hypothec Bank of Japan this country had no scientific system whereby mortgage securities could be readily rendered marketable, available, or convertible into collateral, or sold for cash. Japan lacked a system whereby the great bulk of the people, who possessed small surplus funds to invest, might put their money into land mortgage bonds or similar instruments secured by mortgages on first-class real property. Hence a double disadvantage prevailed. First the entire nation was composed of depositors instead of investors. No sound means was provided for the people to invest, except in non-productive speculations. Only from 1882 onwards, when ordinary banks and savings banks were well known, could the Japanese people place their money in savings banks and other institutions that loaned it out on mortgage, or employed it otherwise. France and Germany are reputed to be composed largely of investors instead of depositors, because means have been provided for the individuals to invest freely in land mortgage bonds sold in small denominations with sound guaranty.

Secondly, no money was available for a large-scale development of agriculture. The farmers found no accommodation except at usurious rate, hence agriculture languished. The increasing value of land, coupled with the greater cost of its cultivation, called for the employment of more and more capital. The farmers could not afford to pay the current high rates for loans, and in many cases it was quite impossible for

them to borrow any reasonable amount upon their land, even at that high rate.

" The lower the rate upon farm mortgages, the less is the cost of producing food products, and therefore the lower will be the cost of living."—(Myrick.)

At that time the average rate of interest on farm mortgages made it impossible for the farmers to continue interest payment even when a loan was procured. The necessity to live and a will to live drove most farmers into the clutches of Shylocks, until they lost the ownership of their lands and of the produce therefrom also. The farmers were consequently changed from proprietors to employees.

It was exceedingly wise of the Government of that time to tackle this problem and to create the first mortgage bank, called the Hypothec Bank.

We say it was wise, because America is another country which suffered a good deal from this evil. Even up to 1916 " the U.S.A., although the leading country of the world in the amount of its agricultural products and in the extent of its banking business, is behind nearly every other progressive country of importance in the development of agricultural credit."—(Phillips.)

President Taft condemned the situation in these terms:

" The 12 million farmers of U.S.A. add each year to the national wealth $8,400 million. They are doing this on a borrowed capital of $6,040 million. On this sum they pay annually interest charges of $510 million. Counting commissions and removal charges the interest rate paid by the farmer of this country is averaged at 8½ per cent. as compared to a rate of 4½ to 3½ per cent. paid by the farmer, for instance, in France or Germany.

" Again the interest paid by the American farmer is considerably higher than that paid by our industrial corporations, railroads, or municipalities. Yet I think it will be admitted that the security offered by the farmer in his farm land is quite as sound as that offered by the industrial corporations. Why, then, will not the investor furnish the farmer with money at as advantageous a rate as he is willing to supply it to the industrial corporations? Obviously the advantage enjoyed by the industrial corporation lies in the financial machinery at its command, which permits it to place its offer before the investor in a more attractive and more readily negotiable form. The farmer lacks this machinery, and lacking it, he suffers unreasonably."

Taking everything into consideration, the rate of interest on the mortgage of farm land should not be higher than the rate charged for loans and advances to the manufacturers and traders, and it should not exceed the rate charged on city real estate mortgages. Yet it is the case in every country, and it results in unhealthy development of cities at the expense of the country.

" Intrinsically, economically and actually, the farm loan is the safer. In all well-settled regions farm values are not so liable to change and decline as are the values of city real estate. Moreover, as the agricultural industry yields products that are always in demand for actual consumption, the land and its use constitute a fundamentally better security than city real estate and commercial industry."—(Myrick.)

This anomaly is caused by the lack of an adequate system. In countries where such a system exists, as in France and Germany, farm land credits attract capital at a lower rate of interest than city real estate. On the continent of Europe the farmer borrows money upon the security of his farm at a lower rate than is charged upon city property. Mr. Myrick affirmed that the Saxony farmer can now get money on mortgage at 4 per cent. interest, but the rate upon central business property and upon residences in the growing city of Halle, the thriving capital of that province, at present is 4½ to 5 per cent., and he adds :

" The German farmer through co-operative effort gets mortgage money one-tenth or one-fifth cheaper than on city property."

The farmers of every country are usually in want of liquid funds. All their money is spent in buying land and in the improvement thereof. Moreover, their financial returns are by no means regular as to date and amount, though usually assured in the course of the year.

To develop agriculture farmers must be able to obtain funds upon terms that are not only reasonable as to interest, but also convenient as to payment of principal.

The Government of Japan had full recognition of this necessity. Attention had been directed towards this end from 1882 onwards, but the aim was only realised in 1896, when land banking institutes such as Agricultural and Industrial Banks were established for the farmers and peasants, together with the co-operative credit unions. It has been an advantage to Japan that the benefit arising from the encouragement of thrift, property and patriotism among the people was

abundantly demonstrated by nearly 150 years of successful experience on the Continent of Europe. The methods in different countries, though they vary in detail, all are based upon the following principles :

(1) Loans are made upon farm or other improved and productive real estate security, with an ample margin of safety, at a reasonable rate of interest with means of reducing the principal by small annual payments (amortisation).

(2) To make possible the low rate of interest upon the security of mortgages, bonds or debentures are issued in small denominations, made negotiable and sold to the public. Thus are secured the funds needed by the farmers and borrowers.

(3) The rate of interest charged to the borrowers being kept low, the interest yield of these farm mortgage bonds is necessarily low. This is possible by a systematically, co-operatively and efficently organised management which is publicly supervised, so that expenses are reduced to a minimum, and middlemen's profits are eliminated.

It must be noted that land banking is a growth and not a manufacture. It must be allowed to develop itself steadily and continually. Its evolution depends upon the perfection of its methods, by which the bank wins its way into public confidence. Unless its securities are sound, and its administration wise, the bank cannot yield the fullest benefit to society ; because capital funds are timid, investors conservative, and vested interests thoroughly entrenched. Therefore it has taken Japan more than fifty-five years to develop her land banking to its present-day efficiency.

First, the Government dispatched officials abroad to study this particular branch of the banking business, and also employed foreign advisers. After years of investigation the Government finally adopted the system of the Crédit Foncier of France. The law of the Hypothec Bank of Japan was then promulgated in April 1896, and in July of the following year the bank was established with a capital of 10 million yen, commencing business in August of the same year.

The capital of the bank was increased many times, until it now stands at 111,775,000 yen, of which 87,651,062 is paid up.

From the beginning the bank was accorded various privileges, such as making loans redeemable by annual amortisation within fifty years on the security of real properties which might

be paddy fields, upland farm, forests, pastures, fishing waters and rights, etc. It was further permitted to issue debentures for long-term loans in order to secure funds to finance without security the public corporations and co-operative societies. In exchange for these privileges the Government imposed on the bank strict official supervision, and also reserved its right to appoint from among the shareholders of the bank the president and vice-president. The Minister of Finance was further empowered to control all the business of the bank, and to fix the yearly rates of dividends.

Besides the Hypothec Bank the Government also instituted local banks, known as Agricultural and Industrial Banks, in each province (prefecture).

The laws applying to these local banks, with the regulation of State subsidy, were promulgated in April 1896. Under these laws forty-six prefectures in the country were to establish Agricultural and Industrial Banks, each having a capital of 200,000 yen or more, with its shareholders limited to those who had either permanent domiciles or actual residences in the respective prefecture. (At present there is no such restriction.) The face value of the shares of the bank was fixed at 20 yen (200 yen in the case of Hypothec Bank, which was reduced to 50 in 1921) so as to bring the subscription within the means of the general public. The law also required each prefecture to subscribe one-third or less of the total shares of the bank. Funds necessary for such subscription were provided by the central government within the maximum limit of 300,000 yen.

These local banks were intended to serve as the correlating and local advisory bodies of the Hypothec Bank, their business being similar to that of the latter.

The funds of these banks were raised by floating debentures. They also could draw on the Hypothec Bank whenever extra money was required for new loans and advances.

With these encouragements the Agricultural and Industrial Banks were established in different prefectures in succession; their number reaching forty-two in 1898, forty-five in the following year, and forty-six in 1900, so that all the prefectures of the country came to possess their own Agricultural and Industrial Banks.

Another encouraging feature was that the Government guaranteed the annual dividend of the Hypothec Bank of Japan at 5 per cent. for ten years. Actually, however, the Government had to subsidise the bank only during the first three business terms under this guaranty, as later the bank

became proficient and able to declare dividends of more than 5 per cent. without subsidy.

In order to enable the Agricultural and Industrial Banks to build up their reserve funds quickly, the Government allowed the banks to keep all the dividends on all shares owned by the prefectural governments during the first five years after their establishment.

The Business of the Hypothec Bank and the Agricultural and Industrial Banks

The Agricultural and Industrial Banks are to make small loans in their respective areas, while the Hypothec Bank is to make larger loans in all parts of the country, and to act as central bank for the former. The business transactions of the Hypothec Bank and the Agricultural and Industrial Banks are principally as follows :

1. To make real estate mortgage loans, redeemable on a certain date within five years, provided that the total of such loans does not exceed the amount of the paid-up capital and reserve funds of the banks. The Hypothec Bank may make loans under the same restriction with mortgage on real estate as collateral security (including mortgage certificates).

In the case, however, of loans for the fishery industry the loans may be made on mortgage of fishery rights, which shall be regarded as immovable property. The amount of loans made on security of residential land or buildings other than sites or buildings belonging to factories, which lie in localities where the city organisation law is in force, or on city land to be designated by an Imperial Ordinance, or the amount of loans made on pledge of claims secured by these residential lands and buildings (including real estate mortgage certificates) plus the amount of loans made under the city planning law or to land rearrangement associations or federations of such associations, shall not exceed one-half of the total amount of the paid-up capital and mortgage debentures issued.

2. To make unsecured loans to prefectures, cities, towns, villages and other public corporations organised by law.

3. To make loans without security, redeemable at a fixed time or by annual instalments in the case of the adjustment of arable land under the law of such adjustments.

4. To make loans without security, redeemable at a fixed time or by annual instalments, to industrial staple export

manufacturers, fishery, forestry, stock breeding or building associations (or federations of such associations).

5. To make loans without security, redeemable at a fixed time within a period not exceeding five years or by annual instalments within a period not exceeding ten years, to a party of at least ten persons combined with joint liability, who are engaged in agriculture, industry or fishery in any prefecture where no Agricultural and Industrial Bank exists.

6. To make loans without security, redeemable at a fixed time or by annual instalments, to land rearrangement associations or federations thereof, in case they apply to borrow for the rearrangement of land to be undertaken under city planning law, or to a party of at least ten persons combined, with joint liability, in case they apply to borrow for the same purpose.

7. With money obtained by the issue of Hypothec debentures with premium, to make loans on security of cultivated fields, salt pans, forests, or on pledges of claims secured by these items (including real estate mortgage certificates).

8. The Hypothec Bank is required to take up debentures issued by the Agricultural and Industrial Banks, Hokkaido Colonisation Bank, Central Bank of Co-operative Societies, and Chosen Industrial Bank.

9. To make loans, redeemable by annual instalments on security of the claim on loans redeemable by annual instalments that are issued by the Agricultural and Industrial Banks, and of the mortgage in security of such loans.

10. To make loans on pledges of claims secured by real estate (including real estate mortgage certificates), redeemable at a fixed time within a period not exceeding five years, and to buy and sell real estate mortgage certificates.

11. To accept deposits and take custody of gold and silver bullion and negotiable paper, provided that the total amount of deposits, other than the deposits of prefectures or cities, shall not exceed the total amount of the paid-up capital.

Finally, the banks shall employ the deposits and the money lying idle in the course of its business in the following manner only :

(a) To purchase, with a sum not less than one-quarter of the total deposits, the national bonds or negotiable paper approved by the Minister of Finance, or to deposit it in the Deposit Bureau of the Ministry of Finance or in banks approved by the Treasury.

(b) To discount bills or make short-term loans on security of the above-mentioned negotiable papers or on agricultural or marine products or on industrial manufactures.

(c) To discount bills or grant overdrafts to industrial associations, staple export manufacturers' associations, fishery associations or federations thereof.

(d) To make short-term loans to public corporations.

(e) To make short-term loans without security to a party of at least ten persons combined, under joint liability, who are engaged in agriculture, industry or fishery in any prefecture where no Agricultural and Industrial Bank exists.

(f) To receive fixed deposits as funds for an initial payment on security of real estate or fishery rights, or on pledge of claims secured by real estate (including real estate mortgage certificates) of loans, redeemable at a fixed time within a period not exceeding five years.

At first it was strictly required that the proceeds of the loans granted by the banks had to be employed only in ways conducive to the improvement and development of agriculture and industry. Such restrictions, however, were found to be too rigid to enable the banks to perform the functions with which they had been charged. The scope of the use of the loans, therefore, was gradually enlarged more and more, until in 1911 such limitations were finally abolished. Under the apprehension, however, that the freedom thus granted might accentuate the tendency to concentrate the operations upon urban mortgages, thus defeating the true purpose of such institutions, the following provisions were instituted:

(1) With the exception of loans on *Zaidan** (foundations) connected with factories or with the sites or buildings thereof, the total amount of mortgage loans on land or buildings situated

* *Zaidan* (literally translated as a mass of property) may be defined as an organic body recognised by law, consisting of a certain amount of movable or immovable property constituting one or the whole part of the equipment put in use for operating a certain kind of enterprise, which can be instituted as the mortgage to secure the loan. In Japan *Zaidan* may be registered in cases of factories, mines, railroads, tramways, or canals. Any company, by virtue of the law governing *Zaidan*, by registering *Zaidan* over its property, and by placing a mortgage on the said *Zaidan*, can issue debentures, taking the said mortgage as security. Constituents of property belonging to any enterprise may be of more effective value collectively, as an organic body, than when each of them is separated as a single property item. If, therefore, debentures are issued against such aggregation of property, and if a mortgage on the same is taken as security, the position of the company will become better secured in the sense that it is enabled to obtain funds as and when needed.

in places subject to municipal administration or in towns designated by Ordinance, and of loans made to the readjustment of land societies, may not altogether exceed one-half of the total amount of the paid-up capital plus the mortgage bonds issued.

(2) In the case of Agricultural and Industrial Banks, however, the total amount of such loans may not exceed one-fourth of the total amount of paid-up capital and mortgage bonds outstanding, with a special proviso that such loans may be increased up to the total amount of the said two items of account with the permission of the Minister concerned.

Both the Hypothec Bank and the Agricultural and Industrial Banks may receive deposits. In order, however, that this privilege may not bring pressure to bear upon ordinary (commercial) banks, it is provided that (*a*) the total amount of fixed deposits and deposits other than those of public bodies shall not exceed the paid-up capital ; and that (b) the deposits of money are to be employed to the extent of not less than one-fourth of the amount in purchasing national bonds or other eligible papers or in depositing with the Deposit Bureau of the Finance Ministry or with other banks. The funds still available after covering the above requirements may be invested in short-term loans on national bonds or eligible papers as above mentioned, or on agricultural, marine or industrial products, or in discounting bills, in granting overdraft credit on current accounts of co-operative societies, or in making short-term advances to public bodies.

It must be remembered, however, that it is only after the principal business has been carried out and when there are funds to spare that they are allowed to make short-term advances. Such transactions are to be considered as side issues.

Hypothec Bank Debentures and Agricultural and Industrial Bank Debentures

At the time when the Hypothec Bank was created the ordinary corporations were allowed to issue their debentures only within the limit of their paid-up capital and provided that one-half or more of their registered capital had been paid up. The Hypothec Bank, however, was authorised, when at least one-quarter of its nominal capital had been paid up, to issue mortgage debentures to an amount not exceeding fifteen times its paid-up capital, provided that the amount of such debentures shall not exceed the total amount of outstanding

loans, redeemable by annual instalments or at a fixed time, plus the debentures in hand of the Agricultural and Industrial Banks, Hokkaido Colonisation Bank, Central Bank for Co-operative Societies, and the Chosen Industrial Bank. These mortgage debentures must be redeemed by means of drawings taking place at least twice a year in amounts proportionate to the amount to be redeemed in the same year of the loans redeemable by annual instalments plus the debentures in hand of the above-mentioned banks. In case any loans redeemable by annual instalments are repaid before maturity, the bank may, with the amount so paid, purchase and redeem its mortgage debentures.

The Agricultural and Industrial Banks were first permitted to issue their debentures to an amount not exceeding five times (later increased to fifteen times) their paid-up capital, without any such restrictions as were imposed on the Hypothec Bank.

With a view to securing funds of long period and low interest rate to finance agricultural and industrial enterprises, the Hypothec Bank has been authorised to pay bonuses or premiums on its debentures at their maturity. The maximum of such bonuses was at first fixed at 500 yen, but later increased to 5,000 yen.

It has further been provided that the Hypothec Bank cannot use the funds acquired from the bonus-bearing debentures for other purposes than loans on mortgage of farm land, forests and pastures, unsecured loans to prefectures, cities, towns, villages and other public corporations organised by law, and underwriting the debentures of the Agricultural and Industrial Banks and the central treasury of industrial associations. The law thus prohibits the employment of such funds for any purposes other than the primary business of the Hypothec Bank as an institution for the mortgage loan business.

The Agricultural and Industrial Banks are not allowed to pay bonuses or premiums on their debentures, but it is provided that the Hypothec Bank may underwrite their debentures to enable them to obtain necessary funds. However, the capacity of the Hypothec Bank to absorb the debentures of the former banks is limited. Moreover, it is not easy for the Agricultural and Industrial Banks to float their debentures, owing to the fact that all of these banks, except a few in large cities, are situated in provincial localities. Naturally, therefore, they have to depend for their resources chiefly on deposits, especially time deposits. But deposits in such localities are few and small,

consequently the primary cost of money is exceedingly high. The supply of funds for agriculture and industry is thus limited.

In order to remedy this drawback the Government, in 1900, allowed the banks to act as agents for loans made by the Hypothec Bank. In 1902 an arrangement was made under which the Agricultural and Industrial Banks are allowed to borrow from the Hypothec Bank on the security of claims to loans redeemable by annual instalments or on the security of mortgage rights. However, this remedy proved to be nothing more than a mild measure, inadequate to relieve the banks of the difficulty in acquiring operating funds. Finally, the Government arrived at the conclusion that it would be better to amalgamate all the Agricultural and Industrial Banks with the Hypothec Bank and made the former the latter's branch offices. The law of Consolidation of the Agricultural and Industrial Banks was accordingly passed in February 1921. Since then twenty-nine of the Agricultural and Industrial Banks have merged in the Hypothec Bank, only seventeen remaining independent at present.

The debentures issued by the Hypothec Bank are of five kinds:

(1) Small Hypothec certificates at a face value of 50 yen (now lowered to 10 yen). In order to render this class of debentures popular they have been converted into premium-bearing bonds, and they have for a long time constituted the chief source of funds for the Hypothec Bank.

(2) Large Hypothec certificates of 100 yen denomination. These certificates were first issued in 1910 while the old 4 per cent. national bonds of the Government were still circulating. The aim was to give liquidity to idle funds in various sources, so that the "tightness of money" in rural districts might be overcome. It appears that this class of certificates will be the basis of future debenture-issuing operations of the Hypothec Bank. They are issued in two ways, i.e. either offered direct to the investing public or underwritten by the Deposit Bureau of the Finance Ministry. In the latter case the issue is called Special Debentures.

(3) Savings certificates, which were created during the Russo-Japanese War to absorb the small sums of money scattered among the people.

(4) Reconstruction premium savings certificates which were created after the earthquake of 1923, in similar manner, to

absorb the funds scattered among the people, for the reconstruction of the devastated areas.

The last two kinds of debentures are issued at a denomination of 5 yen, and the bank only acts as issuing agent of the Deposit Bureau of the Treasury ; the funds obtained therefrom being transferred to the Treasury. (See table on pages 252-3.)

Colonial Banks

The colonial banks came into being after the time of Prince Matsukata and were, in view of the territorial expansion of Japan, aimed at colonial development. These banks can be classified in two distinct categories, the first possessing every characteristic of a central bank, and the second of an agricultural and industrial bank. They were established in order to provide long-term loans to agriculture and industry in the colonies. To the first belong the Bank of Taiwan (Formosa) and the Bank of Chosen (Korea), established in 1899 and 1909 respectively. To the second belong the Hokkaido Colonisation Bank and the Chosen Industrial Bank. The latter was formed in 1918 by merging various local official banks originally established in 1906.

Besides these two groups of banks there exist also semi-official institutions known as the Formosan Development Company and the Oriental Development Company, whose activities are confined within their respective spheres, the first in Formosa and the latter in Manchoukuo and Korea.

All the colonial banks, like the official banks, are subject to strict Government control, and consequently receive on special occasions effective financial aid from both the Government and the Bank of Japan.

It is really interesting to observe the significant and admirable part the Government plays in initiating and supervising the banking system of the country.

We shall now discuss only the Hokkaido Colonisation Bank, leaving the rest to another chapter.

The Hokkaido Takushoku Ginko was established in the province of Hokkaido in February 1900, under special charter and in accordance with the law passed in March 1899. The bank began business in April 1900. Later, Japan acquired Karafuto and the new possession also came within the bank's business area.

The reasons for the establishment of this bank are :

1. The shareholders of any agricultural and industrial bank had been limited to persons residing or having permanent domicile in the given prefecture. This limitation could not apply to the Hokkaido region, as the inhabitants of that province were so poor that they could not afford to buy shares of the bank. Thus the Hokkaido Colonisation Bank was organised in its place and under a special law which permits it to obtain capital from outside the province.

2. According to the law governing agricultural and industrial banks the Government can only provide funds up to the limit of 300,000 yen to participate in the bank's capital stock. But that small sum was not sufficient for the establishment of such a bank in the province of Hokkaido. A more liberal subsidy was required in view of the greater necessity for developing agriculture in that area. Thus the Hokkaido Bank was capitalised at 3 million yen, of which 1 million yen, or one-third, was subscribed by the Treasury itself. This was made possible by the new Act.

3. Owing to the higher money rates that prevailed in Hokkaido, it was necessary for the Hokkaido Colonisation Bank to maintain higher dividends than those of the agricultural and industrial banks of other prefectures. Under the circumstances, the Government allowed the Hokkaido Colonisation Bank to keep back the dividends of the Government-owned shares for a period of ten years subsequent to its establishment (this was later extended another five years), in contrast with the five-year dividend exemption allowed to the agricultural and industrial banks.

At its start the capital of the bank was 3 million yen, which, in 1906, was raised to 5 million yen; in 1917, to 10 million yen; in 1922, to 20 million yen (12,500,000 paid up).

The scope of business is more extensive than that of the agricultural and industrial banks, comprising such business as mortgage debentures trust, agency for banks, and other operations resembling those of ordinary banks. The bank, to be faithful to its mission as a long-term financial institution, is required to make secured loans on bonds and shares of joint stock companies organised for the purpose of the colonisation and exploitation of Hokkaido and Karafuto, and to subscribe for or underwrite the bond issues of such companies.

The following is the principal business of the bank:

(a) Secured loans on agricultural and marine products of Hokkaido and Karafuto.

PRINCIPAL ACCOUNTS OF THE HYPOTHEC BANK OF

(In thousand Yen)

Years	The Hypothec Bank of Japan					
	Paid-up Capital	Reserves	Debentures issued	Loans	Underwriting of Debentures	Short Loans
Meija A.D.						
30 (1897)	2,500			1,376		
31 (1898)	2,500	7	4,997	6,706		
32 (1899)	2,500	34	7,417	8,774	137	
33 (1900)	2,500	70	9,753	11,650	170	
34 (1901)	2,500	135	13,520	14,048	228	
35 (1902)	3,250	210	14,409	17,320	407	
36 (1903)	3,250	460	19,547	21,795	471	
37 (1904)	3,250	574	25,046	23,808	453	
38 (1905)	3,250	900	34,185	25,633	461	
39 (1906)	3,250	1,199	48,102	29,588	545	
40 (1907)	4,250	1,503	54,184	36,793	412	
41 (1908)	5,000	1,712	60,021	45,762	413	
42 (1909)	6,250	1,992	68,968	59,350	438	
43 (1910)	8,750	2,333	93,929	88,423	165	165
44 (1911)	12,500	2,748	134,943	132,776	202	797
Taisho						
1 (1912)	15,000	3,321	160,291	158,296	269	1,028
2 (1913)	17,500	3,957	177,720	186,769	312	1,637
3 (1914)	25,000	4,676	195,279	203,325	315	1,114
4 (1915)	25,000	5,538	220,202	224,683	526	2,827
5 (1916)	25,000	6,444	227,619	221,796	468	5,343
6 (1917)	25,000	7.570	226,909	223,768	388	3,228
7 (1918)	27,500	8,670	247,349	236,672	15,488	3,167
8 (1919)	30,000	9,770	202,880	278,864	26,518	5,755
9 (1920)	32,500	10,640	343,572	328,139	34,372	7,756
10 (1921)	42,705	13,235	402,852	407,248	32,490	22,466
11 (1922)	59,734	22,793	496,063	524,993	27,557	12,830
12 (1923)	69,877	26,898	543,846	619,284	26,620	14,021
13 (1924)	69,877	30,169	623,974	693,454	28,588	15,591
14 (1925)	69,877	33,969	704,371	745,573	32,250	20,118
Showa						
1 (1926)	69,877	37,796	746,540	759,241	32,456	22,029
2 (1927)	74,876	45,468	766,995	800,963	30,428	15,138
3 (1928)	74,876	49,469	814,697	869,633	17,309	10,173
4 (1929)	75,876	54,380	833,938	916,207	13,741	13,687
5 (1930)	84,626	66,121	934,751	1,062,182	16,085	20,774
6 (1931)	84,626	70,723	977,002	1,077,862	8,624	27,325
7 (1932)	84,626	75,323	995,180	1,122,375	6,421	30,087
8 (1933)	84,626	79,123	931,537	1,047,181	788	26,388
9 (1934)	87,651	86,809	875,440	996,024	351	21,684
10 (1935)	87,651	90,911	806,538	935,666	311	24,114

JAPAN AND THE AGRICULTURAL AND INDUSTRIAL BANKS

(In thousand Yen)

	The Agricultural and Industrial Banks.					
Balance with Banks, etc.	Number of Banks	Paid-up Capital	Debentures Outstanding	Deposits	Loans	Balances with Banks, etc.
171	46	575				
892	46	8,740		300	4,221	5,030
1,179	46	15,980	530	1,222	12,063	5,895
816	46	22,923	630	2,147	19,200	7,020
1,349	46	26,050	1,023	3,421	23,086	8,805
782	46	27,657	2,019	4,004	25,114	10,142
1,102	46	27,770	2,602	4,760	27,881	9,503
4,808	46	27,807	2,590	5,502	29,627	8,711
11,756	46	28,257	2,535	5,976	30,398	9,121
19,115	46	28,294	2,818	6,967	32,102	10,134
20,951	46	28,620	3,002	8,219	34,488	11,041
22,158	46	29,004	3,151	8,656	36,462	10,535
20,503	46	29,369	4,125	12,141	40,339	10,252
19,925	46	30,619	11,697	18,004	51,551	10,692
21,845	46	32,370	30,981	23,050	77,098	13,330
22,955	46	36,608	58,844	24,548	107,208	20,126
20,665	46	43,432	70,468	27,452	126,045	22,930
26,157	46	43,432	82,202	33,495	143,190	27,484
30,073	46	45,095	92,579	38,111	154,198	36,233
31,085	46	46,895	98,954	46,360	162,623	40,883
30,104	46	50,188	102,236	50,175	170,140	46,240
29,076	46	55,510	115,851	67,186	186,533	66,970
24,303	46	60,951	132,817	92,070	230,797	65,074
40,907	46	73,997	156,457	126,799	304,433	70,795
29,422	42	80,959	183,233	139,598	338,617	82,153
44,738	29	72,595	224,478	130,162	343,067	72,152
44,863	27	75,250	236,072	133,351	384,102	73,525
50,705	27	79,421	277,775	140,183	427,870	86,878
67,944	27	82,173	336,648	146,399	474,372	102,719
89,184	27	89,288	377,453	151,678	531,749	106,833
97,703	25	86,800	442,983	152,725	610,641	82,595
102,341	25	92,617	468,889	179,399	682,038	66,584
99,456	24	93,150	506,408	166,399	701,714	84,856
107,715	19	80,150	469,796	148,854	646,335	69,625
104,073	19	80,150	483,554	147,468	663,552	58,882
116,333	19	80,650	506,129	160,513	692,534	58,900
122,329	19	80,900	496,672	166,180	664,302	62,313
132,018	17	77,250	449,394	175,939	614,635	54,320

THE HOKKAIDO COLONISATION BANK

At the end of each year (in 1,000 yen)

Year	Authorised Capital	Deposits	Advances	Net Profit	Dividend	Rate of Dividend	Debentures
						Per cent.	
1925 ...	20,000	45,933	167,330	2,373	1,250	10·0	106,474
1926 ...	20,000	49,348	171,572	2,759	1,250	10·0	98,649
1927 ...	20,000	55,054	180,499	3,162	1,125	9·0	115,943
1928 ...	20,000	66,106	178,071	3,318	1,125	9·0	103,238
1929 ...	20,000	73,571	178,779	3,360	1,125	9·0	96,938
1930 ...	20,000	75,056	188,282	3,391	1,125	9·0	102,753
1931 ...	20,000	69,759	187,341	2,932	1,000	8·0	102,716
1932 ...	20,000	79,468	215,705	2,687	938	7·5	124,252
1933 ...	20,000	89,089	217,620	2,411	875	7·0	122,909
1934 ...	20,000	102,828	212,216	2,443	875	7·0	114,491

(b) The discounting of bills of exchange and documentary bills.

(c) Secured loans on merchandise necessary for industry and on merchandise stored in warehouses.

The operations mentioned in (a), (b) and (c) resemble those made by ordinary commercial banks, but the amount of the loans incurred by such operations is required by law not to exceed the total of all the loans mentioned below.

(d) Loans on mortgage of real estate, railway and tramway foundations, redeemable in annual instalments within a period of fifty years.

(e) Loans secured by fishing rights, redeemable on a certain date within a period of five years; or loans on the security of claims to the mortgage loans on real estate, redeemable on a certain date within five years.

(f) Unsecured loans to cities, towns, villages, co-operative societies, or to parties of more than ten persons under joint liability.

Thus the business scope of this bank is not only similar to that of the Hypothec Bank and agricultural and industrial banks, but is further extended into the field of commercial banking.

This bank is also authorised to issue debentures of not less than 10 yen face value up to an amount not exceeding fifteen times its paid-up capital, provided that it does not exceed the total amount outstanding of the loans which are redeemable by annual instalments or at a fixed date. These debentures must be redeemed by drawing, at least twice a year, in amounts proportionate to the total of the said loans to be redeemed in the same year.

CHAPTER XV

Industrial Bank and Other Special Banks

After having provided the agricultural industry with the Hypothec Bank and the Agricultural and Industrial Banks, Prince Matsukata turned to the manufacturing industry and established for it the Industrial Bank.

The manufacturing industry in Japan needs quite as much attention as—if not more than—agricultural industry in view of the facts that :

1. Japan lacks land to produce enough to feed her immense population.
2. The soil in Japan is very poor in quality and farming does not pay unless drainage and fertilising are used.
3. The Japanese people possess a great aptitude both physical and intellectual for this industry.
4. Labour is cheap and also motive power, as water power can be harnessed to produce electric current at a low cost.
5. Japan has a market within itself that is capable of large expansion.

The ambition of Japan as a manufacturing country competing with England, Germany or the U.S.A. is by no means extravagant, but is the outcome of a will to live, as industry is a question of the life and death of the nation. Unless manufacturing industry develops the island empire will languish. There is abundant reason for this ambition to be fulfilled.

Up to the end of the Tokugawa régime the Japanese people struggled to cope with the various obstacles to industry, including the obstructive tactics of the Government of the day, which, in the mistaken idea of barring foreign influence, was wholly and solely opposed to any industrial advances with the aid of foreign capital, men and materials.

Luckily for the country the Government of Meiji reversed

the old conception that any advance of the country had to wait until the people were capable of effecting it themselves. The proof of the Government's wisdom and foresight lies in the policy of enlisting foreign capital, men and materials to initiate the work which the Japanese people were incapable of doing for want of knowledge and skill. The industrial bank bears evidence to this.

The Nippon Kogyo Ginko came into being in 1900, modelled on the Crédit Mobilier of France. It began its business in April 1902. Its authorised capital was 50 million yen fully paid up. Its operations are strictly controlled by the Government by means of numerous Government regulations ensuring an effective supervision. Its business centres on the financing of various industrial concerns in the form of long-term loans on the security of national and local government bonds, or debentures and shares of reliable companies, and of industrial lands, buildings, factories, ships and railways. Among the industries which have received financial help from the bank are, in the main, shipping, iron and steel, food, engineering and chemical industries, but not cotton. The reason for this omission may be that cotton is controlled by great firms of strong financial power independent of any outside help. Most of the industries which have obtained financial support from the bank are those initiated by the Government or of particular interest to the Government, with the exception of infant industries which are particularly assisted by the institution. The funds necessary for loans and advances are acquired through floating debentures in the same way as conducted by the Hypothec Bank.

The amount of debentures authorised is not to exceed ten times the bank's paid-up capital, provided, however, that the total of such debentures shall not exceed the amount of outstanding loans, discounted bills, national and local government bonds, company debentures and shares, and gold and silver bullion in hand. Only in the event of funds being required for enterprises of the nature of public utility undertaken in a foreign country may the bank, with the approval of the Minister of Finance, issue further debentures irrespective of the abovementioned restriction.

Amongst its past operations the most important were the long-term loans on the security of bonds and shares, the underwriting of, and subscription to the issue of Government bonds, and the trust business (to issue debentures guaranteed by itself on behalf of industrial companies which had deposited security with it), all of which had been its essential and

specialised functions as conceived by the formulators of the Law of the Industrial Bank of Japan promulgated in 1900. Some of such operations succeeded and some failed, owing mainly to the need of the times and the skill of the executive. As a matter of fact, Japanese industry had not developed to such an extent in those days as to warrant a bank of exclusive service of the type of Crédit Mobilier de France, along the lines of which this bank was designed. The difficulty attending upon a new field of operations in the early stages of industrial development needs no explanation. Under such circumstances there was no prospect of realising a large profit, all the more so when the commercial banks had acquired the privilege of operating some of the functions belonging to an industrial bank. Hence in the beginning the bank sustained a loss, although its foreign operations brought in substantial profit.

This institution has a remarkable characteristic distinguishable from other official banks in the fact that a great portion of its capital was held by foreigners. The aim of the Government was to attract foreign capital through this bank, hence from the beginning it directed its efforts to this end, and during the first eleven years it succeeded in bringing in foreign funds to the extent of 350 million yen (£35 million) for financing Japanese enterprises. Yet, compared with the funds raised inside the country, the foreign capital is negligible; for the bank was able to raise 50 million yen for the Government in 1902, 140 million yen for the municipalities and 135 million yen for the South Manchurian Railways, a State enterprise. But these sums were destined for public undertakings, whereas the funds raised abroad were for private concerns.

The bank also played an important part in overseas investments. The first of this kind concerned public utilities and loans to private enterprises in Korea in 1906. The bank also took an active part in the investments in China not only directly but also through the Toa Industrial Development Company, the Chunichi Industrial Development Company and the Chukwa Exchange Bank. One of the most notable investments of the bank was its "political loans" to China in 1918. Loans were also made to Japan's industrial developments in the South Seas. It has also underwritten loans for the Russian and French Governments and also subscribed for shares of the Franco-Japanese Bank and Chukwa Exchange Bank when these institutions were established. It featured the trust business and mortgage debentures. Through financial accommodations of the Deposit Bureau of the Ministry of Finance,

the bank lent for industrial rehabilitation the first aid loans to districts devastated by the great earthquake of 1923.

Such connections as were established by the bank through foreign interest proved afterwards the most effective contribution to the development of its foreign business. The first external loan floated by the bank was the 5 per cent. in 1908 at 97, amounting to £2 million. Since then it has played a prominent role in the flotation of various loans abroad. (See page 261.)

According to a report made public a considerable proportion of the Japanese loans floated in foreign markets from 1902-13 was handled by this establishment; the amount being 57,500,000 yen, £26,476,440 and 150,880,000 French francs.

After the war, when Japan became enormously wealthy, the bank, instead of being instrumental in raising foreign loans for Japanese enterprises, was busy investing Japanese capital in foreign countries, chiefly in China. The Government, by way of encouraging this activity, ensured its profits in foreign investments up to the limit of 100 million yen, as the loans to China were made more from a political than an economic standpoint.

After 1924 Japan again found herself in need of funds and once more had to resort to loans abroad. Again the bank served as intermediary. The following is the record of industrial loans floated by this institution:

			Per cent.		Per cent.
1924	Oriental Development	$19,900,000	6		
1924	S.M.R.			£4,000,000	5
1924	Daido Elect. ...	$15,000,000	7		
1924	Ind. Bank. J. ...	$22,000,000	6		
1925	Ujikawa Elect....	$14,000,000	7		
1925	Daido Elect. ...	$13,500,000	6½		
1926	Tokyo Municipal			£6,000,000	5½
1926	Yokohama Municipal	$19,740,000	6		
1927	Tokyo Municipal	$20,640,000	5		
		$124,780,000		£10,000,000	

Thus the bank made headway in foreign business, but its domestic operations were still unprofitable; hence a revision of the law governing the bank in order to extend its functions was deemed necessary. In 1908 the amended law was passed, by which the sphere of business became enlarged and came to include the following:

1. To make loans on pledges of national and prefectural bonds and company debentures and shares.

2. To subscribe for or underwrite national and prefectural bonds and company debentures.

3. To receive deposits of money and accept for custody articles of value.

4. To engage in trust business for mortgage debentures.

5. To discount bills.

6. To engage in the business of bills of exchange and documentary drafts.

7. To make loans on security of foundations created as prescribed by law.

8. To make loans on mortgage of ships under construction, loans which shall be redeemable by annual instalments within a period not exceeding fifteen years, or at a fixed time within a period not exceeding five years.

9. To make loans on security of shipbuilding materials or equipment.

10. To subscribe for or take up shares which have been approved by the Minister of State concerned.

11. To subscribe for national or prefectural bonds and company debentures, or to act as agent for receiving instalments payable by general subscribers, or for paying principal and interest and dividends.

12. To make call loans for a fixed term on security of sites and buildings belonging to factories, or of residential land and buildings lying in localities where the City Organisation Law is in force, or of city land to be designated by Imperial Ordinance, provided however that the total amount of such loans shall not exceed two-thirds of the amount of paid-up capital.

13. To purchase national or prefectural bonds or company debentures and shares or gold and silver bullion with available money which the bank may employ for the purpose.

The functions being enlarged, the bank became in fact a sort of hybrid institution. Originally and theoretically it was intended to be a Crédit Mobilier; in practice it became also a commercial bank. A comment may be made on the relations between the Industrial Bank and the Hypothec Bank of Japan. Both banks became alike in real estate financing operations, though the former specialised in business connected with

THE INDUSTRIAL BANK OF JAPAN

At the end of each year (In 1,000 yen)

Year	Authorised Capital	Deposits	Advances	Capital Fund in Trust	Net Profit	Dividend	Rate of Dividend	Debentures
							Per cent.	
1925 ...	50,000	64,411	283,816	182,598	5,413	4,000	8·0	286,269
1926 ...	50,000	44,025	282,269	192,003	7,279	4,000	8·0	271,375
1927 ...	50,000	45,891	308,700	174,372	6,195	3,000	6·0	248,498
1928 ...	50,000	49,957	325,085	167,014	6,709	3,000	6·0	273,003
1929 ...	50,000	44,988	380,630	163,492	6,765	3,000	6·0	278,575
1930 ...	50,000	46,858	455,336	165,011	6,491	3,000	6·0	333,303
1931 ...	50,000	52,978	486,003	176,992	6,547	3,000	6·0	343,330
1932 ...	50,000	59,236	408,177	354,645	7,800	3,000	6·0	323,840
1934 ...	50,000	59,736	369,429	860,085	7,810	3,000	6·0	290,393

industry rather than agriculture. In general banking operations, particularly in the making of loans on negotiable securities, and discounting bills, the Industrial Bank differed little from ordinary commercial banks, and came to trespass even upon the field of debenture trust operations.

Although this bank became an institution with different kinds of functions it did not prove by any means as profitable as was expected. The more a bank is deprived of its special characteristic, the more difficult becomes the road to successful business. From the beginning it had not been easy for the bank to make a satisfactory showing in the records of its operations. On many occasions the bank even sustained a big loss, such as in connection with its loan to mining interests. Moreover, the difficulty of obtaining low interest banking funds proved a serious obstacle which greatly hampered the profitable operations of the bank. It must be remembered that whereas "big commercial banks" possessed deposits totalling approximately ten times their paid-up capital, this bank, with a small number of branches, not being able to obtain large deposits, had no alternative to depending upon the issue of debentures as a source of loanable funds. For a long time, however, the Industrial Bank debentures were not regarded as a very attractive investment, and therefore the issue did not usually prove a success.

Under such circumstances it was quite natural that the institution should call for a thorough overhauling in its constitution, and indeed until 1913 it was continually being reorganised.

The War of 1914-18, however, suddenly turned the wheel of fortune in favour of the bank. The general prosperity caused by the war acted favourably upon all the operations of banking institutions, and the Industrial Bank was not an exception. But when the war ended the reaction came only too soon and put a strain upon the business world. The difficulties in which the bank found itself were all the more heavy because most of the Chinese loans made during the war became bad debts. It may be recalled that, with the Bank of Taiwan and the Hypothec Bank, the Industrial Bank participated in such loans to China as mentioned below, most of which were initiated by the Government from political considerations; and the Chinese Government defaulted in both interest and principal:

	Yen
Kirin Hueining Railway Loan	10,000,000
Mine and Forestry Loan	30,000,000
War Participation Fund Loan	20,000,000
Bank of Communication Loan	20,000,000

The above loans (or Nishihara Loans, as they are often called) are notorious. The amount to the credit of the Industrial Bank stood in 1925 at about 50 million silver dollars. Added to such loss, the post-war speculations made it urgently necessary for the Industrial Bank to seek a speedy readjustment. The work of reorganisation, however, was rendered more difficult by the earthquake of 1923, which undermined the solvency of many of the bank's important clients. The most conspicuous example was the case of Takata & Co. It is reported that in 1926 the Industrial Bank was required to write off its various loans amounting to 2,600,000 yen granted to this company. Against these loans, land and buildings valued at only 1 million yen are said to have been taken by the bank. It was accepted that such operations clearly revealed the method by which this bank carried out its loan policy, i.e. it relied too much upon the future possibilities of each industry. At the time of writing, judging from the reports made public in a recent speech of the president of the bank, it seems that the policy has been changed and that the bank comes to regard as most important the actual value of the security itself. Henceforth the principle upon which the bank conducts its operations assumes a new aspect, and there is a bright prospect in store for the bank.

On January 11th, 1930, the Government repealed the Ordinance regulating gold exports. Later the gold standard was re-established, but this resulted in increasing difficulties in maintaining the stability of currency. The slump in commodity prices and the trade depression ensued. Added to such embarrassments the yen was already overvalued on the exchange markets at the time the embargo on gold was lifted. The task of adjusting internal prices to that higher exchange value of the yen was none too easy, because of the fact that the value of gold itself, as measured by price levels in all gold standard countries, was rising rapidly. Indeed, commodity prices were in the midst of their headlong slump when Japan linked the yen to this rapidly appreciating standard. To make the matter worse, the Bank of Japan had to ship gold abroad in order to balance the international payments, and this gold efflux helped to aggravate the monetary situation. Japan had chosen the hard road of currency revaluation. The country had to pay for this in the shape of intensified industrial and commercial depression. In August 1930, Mr. Inouye, then Minister of Finance, asked the Industrial Bank to make loans more liberally to industries. Conforming to the policy of the Treasury the bank began to carry out a positive loan policy at a time when all the ordinary

banks took a cautious attitude in this connection. The first step taken by the Industrial Bank was to request the Government to allow an expansion of the issue of the short-term debentures. Up to that time the outstanding amount of the debentures of the Industrial Bank, issued under discount, was about 12 million yen. The Government granted the request and further extended the limit to 75 million yen. By thus increasing the lending power of the bank, the Government obliged the bank to assume unflinchingly a positive financial assistance to industries, to relieve the commercial banks of a part of the industrial demand made on them, and to stimulate indirectly industrial expansion. From September to December of 1930 the Industrial Bank made new loans, amounting to 73 million yen, to fifty companies affected by the depression. The bank, by supplying these firms with such funds, had not only helped them to tide over the difficulties but also assisted them to rationalise their operations by cutting costs and improving production methods. The bank even sent its officials to take part in the administration of such firms. In the meantime Japan again went off gold (1931). Inflation took the place of deflation. It was expected that industry would revive. The Government committed itself to an inflationary policy from 1932, aiming not only to fight depression but to deal with the situation brought about after the Manchurian affair. First of all the Government put in force an Emergency Budget (voted in 1931) and began to distribute relief funds. Moreover, in co-operation with the Bank of Japan, it began to consecrate itself to the low interest policy, such measures having in view the sole purpose of meeting the "extraordinary state of affairs."

In short, the Industrial Bank of Japan's positive loan policy responded admirably to the need of the market. Along with the inflationary measures the securities market became active, and with this improvement the Industrial Bank took the best course possible to assist corporations to convert their loans into mortgage debentures. By this method the bank was relieved of a heavy burden of locked-up assets, for the mortgage debentures were taken by the investing public. By means of this policy the bank's funds became again liquid, to say nothing of the substantial amount of commission earned by underwriting each operation. It was because of such development that the Industrial Bank wields today a sweeping power over the long-term industrial loan market.

The revision of the Mortgage Trust Law promulgated in March 1933 greatly helped the bank to advance in the bond-

issuing business. Hitherto when a mortgage was placed on the property pledged as security, it precluded further indebtedness on the same property. The limit to which money could be borrowed under the mortgage was attained when all bonds had been issued. If the amount of bonds authorised were all disposd of, no further issue secured by a prior lien could be made ; the only recourse of the corporations in need of funds was the second mortgage, by which bonds could be issued secured by junior lien. But investors always preferred the first mortgage bonds, as in case of bankruptcy the holders of second mortgage bonds could not enforce their claims on the lien of their security until the first mortgage bonds were repaid, consequently the issuing corporations encountered difficulty in obtaining funds.

By the revision of the law, however, the first mortgage bonds issued on the same property become elastic. The amount of bonds issuable under the prior lien is, by this law, left indefinite, the mortgage permitting the subsequent issue of additional bonds, according to the need of the issuing house. In short, there has arisen a method which helps a great deal in furthering the issuing business.

The recent changes in economic conditions in this country have brought about an entirely new situation, wherein banking institutions of different kinds have no longer any power to trespass upon the spheres of other banks. The Industrial Bank is today endeavouring to finance only industry, and in this field of business it is held in the highest rank, as may be shown by the following figures :

ISSUE OF MORTGAGE BONDS OUTSTANDING

(millions omitted)

Year	Mitsui			Yasuda			Sumitomo			Industrial Bank of Japan
	Bank	Trust	All	Bank	Trust	All	Bank	Trust	All	
1929	311	41	352	11	26	37	—	3	3	165
1930	305	40	345	12	26	38	—	3	3	166
1931	335	40	375	12	28	40	—	3	3	177
1932	365	40	405	11	28	39	—	15	15	200
1933	368	61	429	11	77	88	15	57	72	272
1934	495	126	621	1	86	87	34	124	158	504
1935	507	85	592	6	87	93	45	102	147	536

Except for the Mitsui Bank, the Industrial Bank of Japan leads. It may be noted that the rate of increase effected by the Industrial Bank in this connection is even more than that of the former.

The case of the Industrial Bank demonstrates that the division of labour among financial institutions may not prove useful unless the conditions fully warrant it. On the other hand, it must be borne in mind that competition may have a serious effect upon financial institutions having too many functions. After all, however, it may be safely assumed that the higher the stage of economic development attained, the more important will be the part played by specialised function.

Ever since the earthquake of 1923 the Government has followed the policy of extending financial aid to small borrowers through the bank. Again, after the financial difficulties of 1927, the small borrowers experienced difficulty in obtaining accommodation, so the Deposit Bureau decided to loan out to the amount of 50 million yen through this bank in co-operation with the Hypothec Bank and the Co-operative Societies Central Bank. Loans were limited to 3,000 yen each, bearing interest from 5 to 6½ per cent. Since then the efforts of the bank have become more and more intensified towards relieving the small traders and industrialists of the shortage of working capital.

From 1932 the Government commenced its loans to small borrowers in accordance with the Law of Emergency Measures passed in 1931. The Industrial Bank was authorised by this law to lend capital funds to small traders under the following conditions: (1) The borrowers must be guaranteed by the prefectural government, which is to indemnify the bank up to the limit of 10-20 per cent. of each eventual loss. (2) The loan is limited to 10,000 yen for "secured" and to 5,000 yen for "unsecured." (3) In either case 10 per cent. of the amount of loan must be left as deposit after the style of the Morris Plan Loan. (4) The loan shall be redeemed within five years by instalments commencing after one year from the date of loan. (5) The proceeds of the loan must be used for the following purposes:

(a) To purchase factory sites or buildings, or to install machinery, or to make improvements in retail stores.
(b) To purchase raw materials for production, or to pay wages, or for working funds.
(c) For the operating funds of credit societies.

The Industrial Bank, in making the loans above specified, can borrow the funds from the Deposit Bureau at low interest. The bank by using its own funds may also make loans to small traders under conditions as follows :

(1) Amount of loan to be from 1,000 yen to 100,000 yen.

(2) To be redeemable within five years.

(3) Rate of interests to be determined according to changing conditions.

(4) Collateral security to be furnished. Appraisal of security to be made within 50 to 90 per cent. of its market value.

The following items may serve as security :

(a) Site of factory, building, machinery.

(b) Residential land or building in a city where the City Organisation Law is in force or in the city designated by Imperial Ordinance.

(c) Negotiable security.

The bank is allowed to make " unsecured loans " to such borrowers residing in and around the City of Tokyo under the following conditions :

(1) Borrowers must furnish a written guarantee of two responsible persons that the principal and interest will be paid.

(2) The amount shall not be more than 5,000 yen, and shall be redeemable within five years by instalments.

It may be noted that the Industrial Bank of Japan was the first to originate small loan operations, even before the co-operative credit unions. The principal basis upon which such loans may be granted is character, plus the earning possibilities of the borrowers. This bank, by practising such operations, has responded admirably to the public demand for financial assistance to small merchants and industrialists.

The figures below testify to the satisfactory results brought about by the help of the bank :

NEW ISSUE OF AND INCREASE IN CAPITAL

(of commercial and industrial companies and banks)

(Amount paid up in million yen)

1911	...	189	1923	...	610
1912	...	221	1924	...	381
1913	...	238	1925	...	509
1914	...	198	1926	...	599
1915	...	124	1927	...	590
1916	...	261	1928	...	593
1917	...	727	1929	...	496
1918	...	1,413	1930	...	370
1919	...	1,236	1931	...	421
1920	...	2,183	1932	...	298
1921	...	1,138	1933	...	719
1922	...	973	1934	...	1,109
			1935	...	950

DEBENTURE ISSUES OF THE INDUSTRIAL BANK OF JAPAN

(in million yen)

	Amount issued	Amount redeemed	Balance
1902–21 average	23	—	—
1916	15	1,938	77
1917	—	867	76
1918	122	538	198
1919	36	503	233
1920	6	11	307
1921	107	54	361
1922	35	107	289
1923	125	105	308
1924	121	107	322
1925	57	95	286
1926	38	52	271
1927	69	91	248
1928	115	90	273
1929	127	121	279
1930	86	31	333
1931	88	78	343
1932	171	111	404
1933	158	239	313
1934	112	—	287
1935	85	—	279

Other Special Banks

As already mentioned, the other special banks came into being after the time of Prince Matsukata for the purpose of colonial development following the territorial expansion of Japan. They are of two types, the first possessing every characteristic of a central bank and the second of a colonial bank. To the first type belong the Bank of Taiwan (Formosa) and the Bank of Chosen (Korea), established in 1899 and 1909 respectively. To the second type belong the Hokkaido Colonisation Bank and the Chosen Industrial Bank, both of which were discussed in the previous chapter. Apart from its function as a central bank for the particular territory, the Bank of Taiwan is the most important of its type. This bank also operates foreign exchange business on a large scale and plays a prominent part in the financing of trade with Formosa and the South Seas. On account of this activity, which departs from the ordinary routine of a central bank, the administration of the Bank of Taiwan is often criticised. In 1927 the bank was forced to close its doors, through being heavily involved in the affairs of a big commercial concern called Suzuki which became insolvent.

The Bank of Taiwan

When Formosa came into the possession of Japan in April 1895, as a result of the Chino-Japanese War, there existed only a few financial houses of primitive type in the island, apart from the agents of foreign bankers. After the establishment of the office of Governor-General in June 1895 one Osaka bank opened a branch, and in the following year the Bank of Japan also established an office to handle the Treasury accounts and the clearing of notes and silver. However, the inhabitants of the island, who had been accustomed to the silver coined money in circulation, did not like the paper money issued by the Bank of Japan. Under the circumstances, and also in view of the urgent need to assure the financial independence of the island as well as to consolidate the currency system of Taiwan for the promotion of agriculture and industry, for the development of natural resources, and for the increase of foreign trade with China and the South Sea countries, the Government promulgated the Bank of Taiwan Act in March 1897, and the Supplementary Act of the Bank of Taiwan in March 1899. In accord with these two measures, the Bank of Taiwan was created in June 1899 with a capital of 5 million yen, of which 1 million yen was subscribed by the Government. The bank

began business in September of the same year. It issued bank notes, the legal circulation of which was limited to within the island, and took over in October the function of the Government fiscal agency.

The note-issuing of the Bank of Taiwan was of the flexible system, under which the bank was required to hold gold and silver coin and bullion as specie reserves, its fiduciary issue being limited to 5 million yen. Any issue in excess of this limit was also allowed, but was subject to a tax of not less than 5 per cent. Although the Bank of Taiwan was permitted to hold its specie reserves either in gold or silver, its notes were made convertible into silver so as to conform to the age-old habit of the inhabitants of the island. For this purpose, the bank borrowed 2 million yen worth of silver coins from the Government, and at the same time adopted measures for the encouragement of the circulation of the silver notes. However, the notes could not remain unaffected by the constant fluctuations in the value of silver metal in China across the sea, hence speculations ensued which interfered greatly with the business transactions between the island and the mainland of Japan, the former having the silver and the latter the gold standard. To meet this emergency the Government authorised the Bank of Taiwan to issue notes convertible into gold, and the issue of silver notes was then stopped. Moreover, the loan from the Government of 2 million yen of silver coin which fell due at that time was renewed till September 1907 ; after that year and for a period of five years the bank was to make an annual reimbursement of 400,000 yen with 2 per cent. interest. The bank was also to redeem gradually all the silver notes in circulation. This redemption was completed in 1909. Since then the currency system of Formosa has conformed to the gold standard of the capital.

Following the development of finance and industry in Formosa the limit of the fiduciary issue was raised to 10 million yen in 1910 and to 20 million yen in 1918 ; this limit stands until today in spite of the desire of the bank to increase it to 50 million. The tax on the issue over the legal limit was lowered to " over 3 per cent." (instead of over 5 per cent.) in March 1921, the actual rate being 3 per cent.

Besides being an issuing institution, the Bank of Taiwan functions as an ordinary commercial bank as well as a colonial and exchange bank. The bank has its head office in Formosa and branches in Japan proper and in foreign countries. The total number of branches is thirty-two, and they are distributed

as follows: 15 in Formosa, 4 in Japan proper (Tokyo, Yokohama, Osaka, Kobe), 13 abroad (6 in China, 4 in the South Seas, 1 each in India, Europe and the U.S.A.).

The amount of its capital at first was 5 million yen, but was raised to 10 million yen in 1912, 20 million yen in 1915, 30 million yen in 1918, 60 million yen in 1919.

Owing to its reckless business expansion during the War of 1914-18 the bank found itself with an enormous amount of frozen debts, and when the financial panic took place in 1920 the bank was compelled to reduce its capital from 60 to 45 million yen in order to write off bad debts. Again, following the difficulties experienced in the crisis of 1927, the bank had to write off its capital another 15 millions. Since then it has made constant endeavours to adjust itself, and thanks to the efficient help obtained from the Bank of Japan some improvements have already been achieved and the danger is dispelled. (See Table on pages 272-3.)

The Bank of Chosen

In June 1878 the Daiichi Ginko (The First Bank) established a branch office in Fusan. This was the first branch bank established abroad by any Japanese bank. It was also the first bank using Western methods in Chosen (Korea). The bank has made valuable contributions to the development of the money market in the peninsula, by handling the Customs accounts of Chosen and by assisting in the Government finances. Owing to the services thus rendered it was later allowed to issue bank notes. But since the success or failure of such notes issued by a Japanese bank would involve the prestige of Japan, the Imperial Government decided to supervise the issue in accordance with the laws of Japan. In 1915, when the bank assumed the handling of the Treasury accounts of Korea, the notes of the bank were, by the Korean Government, granted the power of forced circulation.

In November 1905 a treaty was signed between Japan and Korea by which the Residency General was instituted. Since then the scope of the Government's activity was extended in economics and finance, and the general situation of trade greatly improved. It was then felt necessary to establish a central bank, to issue convertible notes, to render financial assistance to the Government, and to regulate the money market. An agreement was thus concluded between the Daiichi Ginko and the Government on June 18th, 1909, with respect to the transfer of the note-issuing privilege, assets and liabilities

PRINCIPAL ACCOUNTS OF THE BANK OF TAIWAN

(In thousand yen)

Years	Paid-up Capital	Reserves	Notes issued	Deposits	Call loans borrowed	Loans	Foreign Exchange Bought	Foreign Exchange Sold	Invest-ments
Meiji A.D.									
32 (1899) ...	1,250	—	1,834	965	2,423	3,374			235
33 (1900) ...	1,250	18	3,583	4,974	2,869	7,672			2,215
34 (1901) ...	1,250	78	3,199	4,541	2,680	6,988			2,137
35 (1902) ...	2,500	140	5,099	6,470	2,530	9,987			2,086
36 (1903) ...	2,500	247	4,623	5,564	2,356	8,873	519		2,084
37 (1904) ...	2,500	352	5,907	6,017	2,211	9,686	182		2,698
38 (1905) ...	2,500	465	7,814	6,836	2,000	10,444	121		3,865
39 (1906) ...	2,500	635	9,888	10,171	2,100	13,962	413		4,802
40 (1907) ...	3,750	830	10,638	11,862	2,478	17,788	423		4,842
41 (1908) ...	5,000	1,140	9,704	11,188	1,710	18,982	543		4,021
42 (1909) ...	5,000	1,500	15,007	17,436	1,300	25,626	436		5,733
43 (1910) ...	6,250	1,880	16,049	18,860	900	27,298	661		7,078
44 (1911) ...	6,250	2,780	19,381	23,869	800	35,453	1,162		6,844
Taisho									
1 (1912) ...	6,250	3,100	20,414	34,029	100	42,672	2,484		6,692

2 (1913) ...	7,500	3,430	18,785	43,286	100	50,782	4,346		6,000
3 (1914) ...	8,750	3,790	14,247	54,187	—	52,868	9,133		8,737
4 (1915) ...	12,500	4,150	17,611	74,580	718	69,789	45,330		8,332
5 (1916) ...	14,992	4,880	25,451	111,019	1,500	89,489	33,120		11,145
6 (1917) ...	20,000	5,380	33,512	240,264	—	151,940	206,015		33,404
7 (1918) ...	25,000	6,030	42,108	389,201	—	255,553	201,718	—	66,040
8 (1919) ...	37,464	7,030	49,653	286,528	104,920	326,036	203,572	36,850	79,529
9 (1920) ...	45,000	9,680	40,249	182,243	217,585	323,893	132,046	12,015	49,171
10 (1921) ...	45,000	11,080	40,863	159,917	232,553	331,881	169,376	22,907	74,485
11 (1922) ...	52,488	12,180	34,244	170,252	261,765	378,938	177,406	18,677	63,230
12 (1923) ...	52,500	12,980	39,702	201,905	341,755	418,280	212,328	22,394	88,762
13 (1924) ...	52,500	13,780	51,260	224,984	424,093	491,191	225,521	15,625	101,146
14 (1925) ...	39,375	1,840	53,186	134,380	470,786	515,544	155,314	954	83,181
Showa									
1 (1926) ...	39,375	1,766	48,640	92,806	513,959	550,963	115,524	564	79,788
2 (1927) ...	13,125	—	53,602	75,375	519,608	498,991	41,740	299	142,625
3 (1928) ...	13,125	—	55,712	76,089	298,584	285,910	54,466	261	130,661
4 (1929) ...	13,125	14	49,241	71,677	268,132	282,216	38,168	46	113,543
5 (1930) ...	13,125	814	39,903	73,661	234,130	273,241	34,039	—	86,281
6 (1931) ...	13,125	1,544	44,414	78,920	232,335	261,641	49,898	—	87,229
7 (1932) ...	13,125	2,014	52,619	95,070	215,275	245,537	67,775	—	89,162
8 (1933) ...	13,125	2,704	48,993	101,456	175,042	227,943	53,005	—	90,835
9 (1934) ...	13,125	3,504	62,653	112,610	139,253	214,891	68,913	—	89,055
10 (1935) ...	13,125	4,504	70,190	120,744	112,077	214,006	58,057	—	100,094

to the new bank called Bank of Korea. In accord with the Bank of Korea Act promulgated in the same month, the Bank of Korea was established with a paid-up capital of 10 million yen, 3 million yen of which was subscribed by the Government. On its establishment the Bank of Korea took over the outstanding balance of the Daiichi Ginko as on October 20. The latter bank also transferred all its branches, except the Keijo and Fusan offices, to the former.

The convertible Daiichi Ginko notes outstanding then amounted to 11,830,000 yen. It was provided that out of this, 3,940,000 yen was to be taken over by the new bank, the balance of 7,880,000 yen to be reimbursed by instalments during a period of twenty years. To stimulate public confidence in the bank the Government undertook to guarantee a 5 per cent. dividend on the bank's paid-up capital for the first five years, and also granted a loan of 1,200,000 yen, repayable by instalments during ten years, to be used as an operating fund.

On August 29th, 1910, the annexation of Korea was proclaimed, which took effect on October 1 of the same year. The Bank of Chosen Act was then promulgated in February 1911, and the Bank of Chosen was established in August, succeeding to the right and obligations formerly belonging to the Bank of Korea. The Bank of Korea was thus transformed into the Bank of Chosen.

The notes issued by the Bank of Chosen are convertible into gold or Bank of Japan notes. The system of issue is based on the flexible method. The specie reserve may be in gold or silver bullion, or Bank of Japan notes, but the silver must not exceed one-quarter of the whole amount of reserve. In 1910 the Bank of Korea was authorised to issue fiduciary notes up to the limit of 20 million yen on the security of eligible bonds and bills, but in 1911 when the Bank of Chosen was organised in its place the fiduciary issue was increased to 30 million yen, and again increased in 1918 to 50 million yen. The tax on the issue in excess of this limit was fixed at not less than 3 per cent. from April 1, 1935, 4 per cent. being the rate in effect, which, however, was lowered to 3 per cent. in May 1936. The reader will bear in mind that the Bank of Japan is obliged to contribute a certain amount of its profits to the Government as excess tax, but the Bank of Taiwan is exempted from this obligation. However, the Bank of Chosen is being obligated in the following manner. After the deduction (a) of not less than 8 per cent. as a reserve for making good any losing account, (b) of not less than 2 per cent. as a reserve for equalising dividends,

(c) of not more than 10 per cent. as bonuses for the directors, auditors and staff, if the dividend still exceeds 12 per cent. of the paid-up capital, one-half has to be paid to the Government.

Apart from the privilege of note issue the Bank of Chosen functions as an exchange bank as well as an ordinary commercial bank. Not only does the bank transact an extensive business in the peninsula of Korea, it also links up the capital and the colony. The bank now has nine branches and one sub-branch in Korea, four branches and one sub-branch in Japan proper. With the growth of Japanese influence in Manchuria, the business operations of the bank have been extended to this new sphere, having established there twelve branches and three sub-branches. Consequently the Bank of Chosen notes found their way into Manchuria, into Kwantung leased territory and into the South Manchurian railway zone. With the establishment of the recent central bank of Manchoukuo, an agreement was concluded between the new bank and the Bank of Chosen with a view to providing a uniform currency in Manchoukuo. As a result of this agreement the Bank of Chosen notes were withdrawn from Manchoukuo in December 1935. Moreover, as Japanese influence has extended to North China, the Bank of Chosen has commenced to penetrate into this new field. Two branches have been established, one in Tsingtau and one in Tientsin. With its branch in Shanghai and another one in New York the Bank of Chosen maintains altogether twenty-eight branches and eleven sub-branches.

The capital of the Bank of Chosen since its establishment has undergone the following changes :

Yen				
10,000,000	...	October	1909	(paid up)
20,000,000	...	February	1917	,,
40,000,000	...	September	1918	,,
80,000,000	...	February	1920	,,
40,000,000	...	August	1925	,,

The bank thus increased its capital stock on account of the positive policy adopted at the time of the boom period during the War of 1914-18. However, the war and post-war prosperity ended all too soon, and the reaction entailed a great loss to the bank.

In 1923, moreover, the earthquake of September 1 dealt a heavy blow. It was felt imperative then to take radical steps for a readjustment of the bank's business. Consequently the capital was in 1925 written off by half. With the recent

financial activity in Manchoukuo and Chosen, however, the conditions of the bank have shown a great improvement.

Through the revision of the Bank of Chosen Act in 1924 the right of control and supervision of the bank has been transferred from the Governor-General of Korea to the Minister of Finance in Tokyo.

On the opposite page are the principal accounts of the Bank of Chosen :

The Chosen Industrial Bank and the Chosen Savings Bank

During the period of the old régime there was no industry worth mentioning in the peninsula, but after Korea became a protectorate of Japan exploitation of its natural resources and industrial development took place. In March 1906 the Agricultural and Industrial Bank of Chosen Act was promulgated. In order to popularise banking facilities throughout Chosen, the banks established in conformity with the above Act were allowed to transact ordinary banking business as well. The first bank of this kind was established in Keijo in June of the same year, followed by eleven other banks with their forty branches. Subsequently, however, by gradual amalgamation, the number of such banks decreased, for each of these banks was very small in its scope, the amount of the total authorised capital being no more than 2,600,000 yen. It was thought appropriate to amalgamate them into a still larger and more powerful institution, and with the promulgation of the Law of the Industrial Bank of Chosen in October the Chosen Industrial Bank made its appearance with a paid-up capital of 10 million yen. In the meantime this bank became the only institution in the peninsula for mortgage financing, and as a side line conducted ordinary banking business. There are, in fact, many points of resemblance in the scope of this institution and that of the Hokkaido Colonisation Bank. As it was necessary to have a savings service established in Chosen, this bank was also authorised to commence a savings bank business from September 1919. The total savings in June 1929 amounted to 19,480,000 yen, which was deemed sufficiently large to justify the establishment of an independent institution. The Chosen Savings Bank was therefore founded in July 1929, and the savings business of the Chosen Industrial Bank was transferred to the new bank.

On page 278 are the principal accounts of the Chosen Industrial Bank :

PRINCIPAL ACCOUNTS OF THE BANK OF CHOSEN

(In thousand yen)

Years	Paid-up Capital	Reserves	Notes issued	Deposits	Borrowings	Loans	Investments	Gold and Silver Bullion and Coin
Meiji A.D.								
42 (1909) ...	2,500	—	13,439	7,631	500	19,622	150	229
43 (1910) ...	2,500	3	20,163	5,960	—	22,192	1,865	116
44 (1911) ...	5,000	16	25,005	6,978	2,000	31,895	5,549	2,377
Taisho								
1 (1912) ...	7,500	57	25,550	14,169	3,000	32,505	5,342	1,786
2 (1913) ...	7,500	134	25,693	20,801	4,200	37,532	7,149	10,323
3 (1914) ...	10,000	240	21,850	17,598	6,152	37,075	7,383	8,837
4 (1915) ...	10,000	378	34,387	18,588	4,200	42,862	7,591	12,961
5 (1916) ...	10,000	518	46,627	33,033	4,200	58,386	10,078	18,869
6 (1917) ...	15,000	1,683	67,364	88,413	4,200	119,926	15,537	30,739
7 (1918) ...	25,000	2,333	115,523	218,960	4,200	241,515	16,720	57,498
8 (1919) ...	25,000	4,820	163,600	194,300	88,716	390,920	21,911	75,864
9 (1920) ...	50,000	7,650	114,034	171,734	71,570	298,475	27,579	70,168
10 (1921) ...	50,000	9,410	136,360	162,947	92,777	374,575	40,914	54,018
11 (1922) ...	50,000	10,540	100,540	160,557	105,486	322,472	54,275	40,963
12 (1923) ...	50,000	11,040	110,750	163,148	181,442	383,332	60,154	43,289
13 (1924) ...	50,000	11,422	129,564	204,623	140,876	396,152	72,647	49,827
14 (1925) ...	25,000	873	120,540	132,736	188,498	345,711	62,345	48,804
Showa								
1 (1926) ...	25,000	821	110,936	88,668	214,338	296,264	79,312	44,482
2 (1927) ...	25,000	1,001	124,527	150,510	129,644	258,700	94,537	66,268
3 (1928) ...	25,000	921	132,444	102,716	196,188	261,510	109,534	86,973
4 (1929) ...	25,000	2,101	118,701	103,948	211,546	267,521	111,714	66,486
5 (1930) ...	25,000	2,901	90,615	98,785	211,230	266,555	106,459	44,837
6 (1931) ...	25,000	3,701	100,901	111,462	206,490	297,401	91,801	41,471
7 (1932) ...	25,000	4,501	124,622	193,932	198,066	337,468	92,869	81,667
8 (1933) ...	25,000	5,301	148,176	215,105	228,452	355,730	138,664	107,881
9 (1934) ...	25,000	6,101	192,457	228,193	276,356	420,536	160,634	122,268
10 (1935) ...	25,000	6,901	220,777	292,122	218,270	422,812	140,736	180,827

PRINCIPAL ACCOUNTS OF THE CHOSEN INDUSTRIAL BANK

(In thousand yen)

Years	Paid-up Capital	Reserves	Deposits	Savings Bank Deposits	Debentures outstanding	Loans as Special Bank	Loans as Ordinary Bank
Taisho A.D.							
7 (1918)	4,197	613	14,395	—	3,000	8,116	21,723
8 (1919)	8,058	656	32,916	395	17,500	29,371	41,684
9 (1920)	15,000	1,023	35,181	735	33,450	52,884	33,064
10 (1921)	15,000	1,203	37,067	1,582	49,550	77,935	53,211
11 (1922)	15,000	1,703	35,050	3,026	82,550	103,683	47,624
12 (1923)	15,000	2,253	40,350	4,902	100,250	119,509	51,098
13 (1924)	15,000	2,853	43,948	6,409	118,800	126,199	53,721
14 (1925)	15,000	3,553	49,416	6,776	135,976	138,796	56,206
Showa							
1 (1926)	15,000	4,453	53,769	9,860	144,837	150,802	60,500
2 (1927)	15,000	5,503	52,482	13,518	173,445	174,912	60,699
3 (1928)	15,000	6,523	62,598	17,320	177,223	186,823	61,876
4 (1929)	20,000	7,563	65,990	—	199,685	207,354	61,725
5 (1930)	20,000	8,503	52,623	—	242,158	246,840	55,154
6 (1931)	20,000	9,643	63,243	—	247,558	250,285	69,545
7 (1932)	20,000	10,683	70,557	—	260,992	269,152	77,693
8 (1933)	20,000	11,723	82,270	—	253,482	266,578	90,667
9 (1934)	20,000	12,763	98,806	—	244,955	263,050	128,185
10 (1935)	25,000	13,883	123,399	—	278,674	288,215	152,562

CHAPTER XVI

Co-operative Societies

Since 1900 the number of co-operative societies in Japan has increased considerably from year to year, with corresponding growth in other forms of co-operative business. The reason for this astonishing progress may be attributed to the benefits which the institution bestows upon the farmers and peasantry. It pays the farmers and others to patronise it. It pays them in saving money, in making profits, and in encouraging thrift, but it pays yet more by binding them together and holding them together.

"There is no exaggeration in the statement that the remarkable progress in European agriculture during the past twenty years [1890] is due in large measure to the successful development of co-operative finance. It has fostered education in agriculture and in other sciences, promoting better farming, encouraged co-operation in buying farm supplies, and to a less extent in marketing farm products and in raising the whole standard of civilisation among the farmers, with social, political and economic consequences of transcending importance. To this factor is largely due the almost entire cessation of the emigration that formerly threatened to depopulate rural Germany, which is now cultivated like a garden with hardly a foot of waste land nor a deserted farm."—(Myrick.)

Every year more and more farmers and peasants of Japan enrol as members of the co-operative credit societies which supply them with funds and credit.

These societies are so beneficial that they increase prodigiously in number and are accompanied by extensive growth in other forms of co-operative effort.

The dictum of the great French despot who proclaimed "l'état, c'est moi," meaning that "credit supports agriculture as the cord supports the hanged," is entirely disproved by the brilliant achievement of co-operative societies in Europe as well as in Japan.

This nation learned a great deal from the U.S.A. in the way of developing the country. Japan had taken America as her model when modernising and rationalising her industries, but she did not look to America for her co-operative business, and in fact Japan surpasses the U.S.A. in this movement for providing banking facilities for agricultural credit.

In an industrial country it is inevitable that banking capital should tend to concentrate in the large cities, unless a system of branch banking is developed, as it is in Canada. The city banks are more or less prevented, by reasons of their location and the demands of their business, from spreading agricultural loans even when they are so inclined. Japan had developed her branch banking so recently as 1914; but before that time the situation was not entirely hopeless, owing to the indigenous system of co-operative credit.

Unlike the U.S.A., where land was comparatively cheap and labour and capital comparatively so dear that intensive cultivation was generally unprofitable, in Japan land was dear but labour so cheap that intensive cultivation was almost obligatory, hence capital played a predominant role. Spontaneously out of sheer necessity some kind of facilities in agricultural credit had to be created.

The farmers and peasants of Japan were mostly so poor that they were forced to resort to credits, unlike their counterparts in the U.S.A., who were mostly prosperous, but like the farmers of Germany in the middle of the last century when Raiffeisen co-operative banks were first organised.

1. The farmers of Japan, by strength of family ties, were not nomadic like the American farmers who moved about for new lands. In Japan there was no waste land which could be had for the asking, and all the lands were owned by influential persons or corporations. This condition restrained the urge for migrating and also the means of obtaining funds.

2. The rapid growth of the manufacturing industry and commercial business of the country due to successive wars put the bulk of the nation's capital in the hands of certain classes of people who controlled banking business, rendering it all the more difficult for the farmers to obtain working funds.

3. In addition to the above two obstacles which the farmers encountered in the matter of credit, in contrast to manufacturers and merchants, there existed also other obstacles such as the uncertainty of crops and the seasonal character of the farmers' credit demands.

All these circumstances gave impetus to the pooling of energy and resources and helped to propagate the co-operative movement among the farmers and peasantry.

So far as can be ascertained the co-operative movement in Japan dates back to the fourteenth century in the period of the Ashikaga Shogunate, in which there existed the *Mujin* societies (or *Ko*) which operated a sort of co-operative finance. After centuries of experience this Mujin made itself more and more indispensable, while retaining all its ancient characteristics. In fact, rooted as it was in the needs of the people, it made such a phenomenal success that the Government had to adopt measures of control. Thus in 1915 the system was given a legal status by the promulgation of the Law of Mujin.

Strictly speaking, Mujin is not exactly a co-operative institution in the modern sense, for while co-operative business takes the form of an association based upon mutual trust, having as its object the improvement of the financial standing of its members, Mujin, although formed by a group of people and based upon mutual trust, cannot be regarded as an association, for it is only a temporary grouping of people by contract, for the purpose of making loans among themselves. What distinguishes the Mujin from the co-operative society is the lack of the spiritual element in the former. Nevertheless, Mujin has played and still plays an important part in financing groups of middle and lower classes of people, and as such it deserves some explanation.

Mujin

Originally organised and managed by private individuals and known as *Mujin-ko*, the Mujin of today takes the form of a joint stock company, in accord with the Law of Mujin which was promulgated in 1913, and revised in 1931. The revised law obliged all the existing Mujin houses to reorganise themselves within five years (1936) into joint stock companies with a minimum paid-up capital of 15,000 yen.

The principal function of a Mujin is to furnish funds to merchants, farmers, and manufacturers of small means.

The following example will illustrate the method of operation:

1. The company announces that it wishes to form, commencing with a certain month, a group of, say, fifty subscribers who are to contribute monthly 21 yen per person per month. It then calls for subscribers.

2. This creates each month a loan fund of 1,050 yen, of which 50 yen are retained by the company for expenses, etc.

3. A 1,000-yen loan may then be made, either by drawing or by bidding.

The company is fully alert to the demand for loans. If the demand is brisk, the bidding system is used ; otherwise drawing takes place.

Drawing System

(a) The winning number gets a loan of 1,000 yen without interest.

(b) The winning number continues to make his contributions in each succeeding month.

(c) The winning number is disqualified for further competition in subsequent drawings.

(d) The winning number must assure the company in respect of subsequent contributions either by presenting a guarantor or by offering collateral security.

(e) Eventually, at the end of the fiftieth instalment, every subscriber receives a loan of 1,000 yen.

(f) In case the winning number does not require the loan, he is permitted to sell the loan privilege to another subscriber.

(g) In case the winning number sells this privilege, he is again qualified for subsequent drawings, but the purchaser is disqualified in his place.

Bidding System

(a) The subscriber who offers the lowest bid receives the loan.

(b) The lowest bidder means one who is willing to accept the greatest deduction on the principal—the lowest amount of loan. This minimum amount (or the lowest bid) is prescribed by law* and fixed by the by-law. (In usual practice the lowest bid is not less than 85 per cent.)

4. In the case of drawing, in each lot (a) the subscriber of the winning number receives a loan of 1,000 yen.

(b) The company receives 50 yen, the balance of the amount of loan and collected fund.

* The by-law prescribes that the difference between the total instalment payments and the amount of the loan shall not exceed 15 per cent. of the latter amount.

But in the case of bidding, in each lot (a) the lowest bidder receives the loan at the lowest amount he is willing to accept, say 850 yen.*

(b) The company receives 50 yen.

(c) One hundred and fifty yen, the surplus amount resulting from the difference between the competitive bidding (850 yen) and the nominal loan fund (1,000 yen) is distributed among the forty-nine subscribers in the form of rebate of 3·06 yen each, to be deducted from his instalment payment for the next month.

5. The Mujin contract then expires after the fiftieth instalment with the following result :

(a) Every member gets a loan of 1,000 yen.

(b) The company receives 25,000 yen which are set aside for expenses and profits.

The account then shows :

Amount of loan	1,000 yen
Number of subscribers	50
Number of lots	50
Amount of monthly subscription of each subscriber	21 ,,
Amount collected at each instalment (21 yen each) from fifty subscribers	1,050 ,,
Total amount to be paid by subscribers during fifty months	52,500 ,,
Amount of loan to subscriber (winning number at lottery drawing)	1,000 ,, or 850 by bidding
Amount left for the company (1,050-1,000) at each lot	50 yen
Amount of loan to subscriber (lowest bidder)	850 ,,
Amount to be distributed among forty-nine subscribers	3·06 yen each

6. Advantage to subscribers :

(a) Rebate is deducted from instalment amount.

(b) Profit or dividend is granted at the termination of the contract.

Hence the actual contribution is very much less than the nominal amount of each instalment multiplied by the number of lots.

* The fact that the amount actually paid to the lowest bidder cannot be predetermined makes it difficult to compute earnings in advance.

7. Speculative element:

(a) Those who win the loans in the early months obviously gain, while those who are not successful until late in the game lose proportionately.

(b) The successful drawer by selling his loan privilege obtains profit thereby.

(c) At any rate a subscriber who obtains a loan at a later drawing of lots may still earn more than the ordinary deposit interest at a bank.

8. Advantages to the company:

The balance between the collected contributions and the loans is the revenue of the company. Out of such income the company pays expenses and provides for risks and for profits, part of which is distributed as dividends or bonuses to the subscribers.

9. The recent development of Mujin can be seen by the following statistics:

	Number of companies	Capital (1,000 yen)	Number of groups	Number of subscribers	Loans made by Mujin method (1,000 yen)
1916	136	7,406	5,714	235,375	15,224
1926	243	34,589	34,589	1,185,294	312,646
1936	253	39,364	72,683	2,178,621	549,926

10. The above example is in accordance with the method practised in Tokyo, but in Osaka and Nagoya different systems are adopted; hence there exist three types of Mujins with slight differences:

(a) Tokyo style.
(b) Osaka style.
(c) Chukyo (or Nagoya) style.

(a) *Tokyo style.*—The total instalments of each subscriber exceed the amount of loan. Nominally the amount of each contribution is the same throughout the contract regardless of whether a subscriber receives the loan at an earlier or later part of the contract. But in reality the subscribers are paid, in addition to the loans, the rebates resulting from the competitive bidding and the bonuses.

(b) *Osaka style.*—The total of instalment payments or contributions of a subscriber is smaller in amount than the loan. A subscriber who receives the loan during the earlier part of the contract is required to pay a larger amount of contribution than he had been paying before. The amount of increase differs according to the period at which he receives the loan. Those who receive the loans towards the end of the contract receive also interest payment in the form of rebate and also dividends or bonuses. Those who receive the loan earlier have to make their interest payment to the company, while those who refuse the loans are paid interest.

(c) *Chukyo style.*—This style is a compromise between the first two types. The subscribers who receive the loans towards the end of the contract pay in practically the same amounts as they receive in loans, while those who receive the loans earlier are not required to pay so large a contribution as in the Osaka system.

Hotokusha

The credit societies in Japan, called in Japanese parlance *Hotokusha,* are the successors of Mujin, the idea of which was elaborated and blended with spiritual essence by Sontoku Ninomiya. The Hotokusha was first founded by the disciples of this great scholar and social worker in the Tempo era (1830-44).

Ninomiya was born in 1787 in a village near Odawara, the son of a peasant family. At the age of 14 he lost his father and two years later his mother. With the misfortune still fresh in his memory, there came a great flood which washed away and destroyed his farm, the only thing left to him. Deprived thus of what little he had, he found himself in a situation which made life a burden instead of a blessing. However, undaunted by these successive calamities, he made a solemn determination to restore the lost estate. He worked hard and by the time he reached twenty-four years of age he had turned his estate into a valuable property, the fruit of his assiduous toil. Nothing indeed appeared to him to be more important than hard work and thrift. He became a man of means. He worked and he saved, and the first truth he learned was from the proverb: " The big is composed of the small." Though he was intent on making money, he did not disregard the spiritual side of the issue. He studied hard in his spare time and became firmly convinced that " Man does not live by rice alone." He read in Hotoku (from Confucius) a passage saying,

"repay virtuous deeds with virtuous deeds." This proverb eventually became the foundation upon which he based the principles of his co-operative idea. According to Ninomiya, man is born in this world by the virtuous deed of nature, which man must repay also with a virtuous deed; that is to say, with conduct exemplifying the duty of a man. To discharge this duty a man must be a good master of the house, a good husband, a good father, a good neighbour and a good citizen. To become a good master, a good father, a good husband it is of the utmost importance that the house be financially set in order. To set the house on a sound financial condition one must exercise thrift and diligence. To be a good neighbour is to practise mutual help. To be a good citizen is to contribute towards building up a strong and powerful nation in which a man can enjoy the fullness of life. Such was the philosophy to which he often gave expression, and in accordance with it he conducted his daily life. It so happened that in those days the chief retainer of the Daimyo of Odawara was hopelessly in debt to money-lenders. Ninomiya was called upon to serve as adviser to this retainer and was entrusted with the task of readjusting the financial affairs of his master. He made a thorough investigation and admirably reconstructed the household estate. He thereby won the appreciation of not only the retainer himself but also of the lord of the province. So great was his reputation and so influential was the patronage of the Daimyo that he received requests from many places to reconstruct devastated districts or readjust indebted communities. All of these tasks were successfully acquitted to his credit. Wherever he went and whatever he did, he continually propagated his principle of finance blended with morality. Most strongly he felt that healthy social life was the outcome of a united force of a group or groups bound together by the spirit of mutual help; thus the co-operative credit society of Japan, a flourishing institution, sprang from the seeds he scattered.

In 1843 a group of traders in the town of Odawara formed a society with a capital of 160 yen contributed by Ninomiya himself, with the purpose of providing a fund for mutual assistance. The society was called *Hotokusha*, and this appellation has been used ever since by subsequent societies of like organisation.

1. The membership of Hotokusha was open both to the poor and the rich, to men of tested morals and to men of questionable character, for the purpose of Hotokusha was not only to make the poor rich but to give the rich a chance to help the poor and to make the good lead the bad.

2. Operations :

Hotokusha, as a credit society, must have capital with which to perform its functions. The capital takes the form of :

(a) *Foundation fund* paid in by voluntary contributions or income from (c).

(b) *Participation fund,* analogous to ordinary banking deposits, paid in by members either through extra labour or through thrift ; the fund being regarded as a loan bearing interest.

(c) *Savings fund,* also deposits paid in occasionally in small amounts without any fixed date of withdrawal. This money is employed in safe investments, and when the principal with its accrued interest reaches a specified amount, the depositor receives a certificate testifying his merit and thrift habit. After this, a certain percentage of the income is paid to him annually. The principal is returned to him only at the cancellation of his membership.

3. A loan is granted not so much for business purposes with a view to earning money as for the rehabilitation of family finance. It is often made to a poor member, in token of his good conduct or diligence, to aid in his small business or farm operations.

4. When community work is conducted for the relief of the members suffering from the effects of a catastrophe, the expenses are defrayed from the foundation fund.

5. In this way the Hotokusha resembles in its form and function the German Raiffeisen credit society. After the enactment of the Co-operative Law in 1900 some of the Hotokushas were reorganised into modern credit societies, although a great number still follow their original lines.

Towards the nineteenth century there appeared several co-operative marketing societies, being the offshoots of Hotokusha, called *Minami sansha,* which owed nothing to the European system. They were organised by farmers, principally by those engaged in the cocoon culture for marketing hand-reeled silk, but they now deal in machine-reeled silk and in other allied business. They have grown into powerful marketing organisations with several thousands of members.

The reader should be reminded that the people in towns and in rural villages of Japan are more frugal than the people of Europe. They live more simply. In Japan simplicity is carried to the utmost degree, even by the Emperor himself, who sets an

example, until simplicity comes to be regarded not only as a virtue but as a dignity. The most simple is the most dignified. In their simple life the people are more intimately acquainted with each other and less independent in thought and action than the Europeans or Americans. The small farmers and peasantry mostly live in little huts floored with mats "all huddled together" as the Americans express it, instead of each married couple separating from the household and occupying its own farmstead as in the U.S.A. The bulk of their business is transacted with coins and with paper money, or by postal order instead of cheques. The situation in Germany and France resembles that of Japan more than that of the U.S.A.

In Europe it took fifty years for the co-operative idea to travel from the study to the farm; for though it was established as early as 1849, it became operative only after 1890. Since then the societies have continued to grow in number and resources, usefulness and influence. However, the system has not yet secured a foothold in many European countries, such as England, despite its able advocates.

The co-operative societies in Europe are classified in three categories, each named after its founder, as Raiffeisen, Schulze-Delitzsch (German) and Luzatti (Italian).

Modern Co-operative Movement in Japan

Shortly after Japan came in contact with Western countries, various investigators were sent abroad to acquire knowledge of foreign systems of co-operative business. On returning home these experts urged the Government to encourage the co-operative movement on Western lines. The consequence was the promulgation of the Co-operative Society Law in March 1900, after the German model. This law classified the co-operative business into four groups, viz.:

(1) *Credit Society*, to grant credit facilities to members.
(2) *Co-operative Marketing Society*, to operate marketing by co-operative methods.
(3) *Co-operative Purchasing Society*, to make purchases by co-operative methods.
(4) *Utilisation Co-operative Society*, to enable the members to utilise machinery for production and distribution by co-operative methods.

The first group harvested the seeds which the Mujin had been sowing for centuries; hence it was able to make spectacular progress, as is shown by the following table:

FINANCIAL RESULTS OF CO-OPERATIVE SOCIETIES
(In million yen)

	Marketing	Purchasing	Credit	Utilisation
1926 ...	221·3	153·5	641·6	4·2
1932 ...	199·6	123·3	1,005·5	5·3
1933 ...	261·7	154·6	1,010·2	6·6
1934 ...	322·3	198·0	1,012·1	7·4

It is evident that the credit co-operative societies hold the most important position among the four groups of societies. It must be remembered, however, that as co-operative societies are allowed to carry on more than one function, the classification referred to above cannot be claimed as representing types distinct from each other.

At first activity was limited to one particular class, but the Act as revised in July 1917 permits a wider range of operations to the credit societies, thus giving further impetus to the progress of the co-operative movement in Japan.

As a result of the Amendment Act the credit societies are allowed not only to receive deposits from their members' families, public corporations or private non-business bodies, but to discount bills for their members and to receive the savings accounts of non-members in the same city.

They are subject to the jurisdiction of both the Finance Minister and the Minister of Agriculture and Forestry.

Below are the figures showing the development of credit societies up to 1933 :

Year	Money paid Yen	Loans Yen	Savings Yen	Total B/S Yen
1930 ...	63,361,120	136,199,660	163,279,668	269,463,423
1931 ...	61,496,440	143,046,052	165,351,942	272,554,757
1932 ...	58,739,865	138,832,405	160,233,203	271,284,152
1933 ...	56,493,820	158,026,038	177,370,486	292,271,078

Rural Societies and Urban Societies

The first are of greater importance. Their number in 1929 reached 12,100 with a membership of 3,407,130, while the urban societies registered only 252 in number and 230,205 in membership. The relative importance of the two types is revealed by the following figures :

	(In thousand yen) Rural	Urban
Capital paid in	143,511	36,057
Deposits of members	515,293	72,056
Deposits of non-members	351,354	72,906
Loans due	736,551	109,997
Bills discounted	—	17,557
Deposits with banks	—	42,664

It is of interest to note that the deposits of non-members in the rural societies, though not authorised until 1917, now equal more than 60 per cent. of the members' deposits, and in the urban societies they even exceed those of members.

Federations of Credit Societies

A number of provincial credit societies have been formed in recent years. They were organised by the local credit societies themselves for the primary purpose of supplying capital to and receiving deposits from the local credit societies within the Federation's territory, thus facilitating the flow of funds between local credit societies. These federations may also guarantee the obligations of the local societies *vis-à-vis* the central organ of all the credit societies.

For the purpose of co-ordination, as well as mutual help among themselves, the credit societies in Japan have consolidated their positions as below :

Local credit societies
called
Local co-operative banks
or Local Chests
in various rural and urban districts
combine themselves
into
↓
Provincial credit societies
called
Provincial co-operative banks
or Provincial Chests
(one in every co-operative province)
which again combine themselves
into
↓
Central credit society
called
National co-operative bank
or simply
Central Chest.

The Central Chest

The Central Chest was organised by law in April 1923 and has been, ever since, a central financial body for the provincial chests which are in turn central bodies for the local chests. The aim of the Central Chest is to regulate the movement of funds and to bring them into close contact with the central money market. Its authorised capital is 30,700,000 yen, 15 millions of which was subscribed by the Government and the rest by the Provincial Chests throughout the country.

The business of the Central Chest may be briefly outlined as follows:

1. To make unsecured (or secured, in particular cases) loans, redeemable within a period of five years, to the provincial chests or to their local member chests. The special feature of the loan operation of this institution is that it furnishes "intermediate credit," that is to say loans which fall midway (in regard to time required for their liquidation) between commercial credits and mortgage loans.

2. To make unsecured loans, redeemable by annual instalments within a period not exceeding thirty years, to the provincial chests or local chests, provided that the total amount of such loans does not exceed one-half of the paid-up capital and debentures issued.

3. To discount bills or to make advances on the current account of the provincial chests. In case of necessity securities may be required for this kind of advances.

4. To deal in bills of exchange for the provincial chests and local chests.

5. To receive deposits of money from the provincial chests, public corporations and private non-business bodies.

6. To issue debentures to an extent not exceeding ten times its paid-up capital.

Statistics

The volume and character of the business of the Central Chest are shown below:

	1930	1934
Capital paid in	26,240,000	30,000,000
Surplus	1,991,000	3,386,000
Debentures issued	24,210,000	64,835,000
Deposits	41,012,000	99,241,000
Loans	48,702,000	142,104,000
Bills discounted	555,000	668,000

ASSETS

March of		Unpaid investment	Loans made	Deposits in banks	Securities	Total, including others
			(In Yen 1,000)			
1930	...	4,459	47,535	31,587	14,018	100,283
1931	...	2,614	78,774	23,149	13,183	120,880
1932	...	1,159	93,298	16,908	11,823	127,891
1933	...	381	127,332	40,145	18,493	192,073
1934	...	14	150,970	30,532	57,216	245,786

LIABILITIES

Year		Investment by Government	Investment by others	Co-operative debentures	Fixed deposits	Total, including others
			(In Yen 1,000)			
1930	...	15,000	15,700	24,210	36,291	100,283
1931	...	15,000	15,700	41,240	35,661	120,880
1932	...	15,000	15,700	41,419	32,447	127,891
1933	...	15,000	15,700	59,503	59,624	192,073
1934	...	15,000	15,700	64,411	84,454	245,785

Administration

The Central Chest is subject to the supervision of both the Finance Minister and the Minister of Agriculture and Forestry. On its own strength it can borrow from other banking institutions, thus linking the co-operative credit with the general credit structure of the country.

The Central Chest acts as propaganda and educational agent for all the chests (provincial and local). Recently a co-operative college has been opened under its auspices.

Characteristics

Generally speaking the Japanese organisation is of the same character as the Raiffeisen system in that—

(a) the field of activity covers a small area ;
(b) the value of each share is relatively low ;
(c) loans are granted for comparatively long periods ;
(d) the posts of managers and auditors are honorary in principle ;
(e) the working of the chest is simple ;
(f) one or more other forms of co-operative business may be undertaken.

The Japanese organisation resembles the Schulze-Delitzsch system in the following facts:

(a) the reserve funds are not divisible;
(b) limited liability is preferred to unlimited liability of members;
(c) the moral side of the system is not stressed.

Urban and Rural Chests

As previously noted, the urban chests are far less important than the rural chests, but these two classes of local chests differ in many respects. For instance, in order to be registered as an Urban Credit Society, or Urban Chest as it is now called, the undertaking must be established in a city or a quasi-city authorised by law. Since the urban chests serve primarily the small artisans and tradesmen, they are allowed to grant loans by way of discounting bills of exchange, a practice not permitted in rural chests. Moreover, whereas rural chests may undertake other kinds of co-operative business beside credit, the urban chests must confine themselves to credit operations only.

Co-operative Movement in General

The widespread and closely knit co-operative movement of modern type in Japan is of interest as having three special characteristics of its own, different from all foreign systems.

(a) It has been initiated from above—by the Government which has financed it with the Government's own funds or by granting loans at low rate of interest. Hence, the Government has been able to control the movement and to supervise it closely.

(b) It is a system which precludes co-operative workers' productive societies or self-governing workshops on the French model, because of the fear that such may constitute the first step to Socialism.

(c) It is a system in which the consumer's interests are least considered. The Government wishes particularly to assist the small rice cultivators and incidentally the artisans, but ignores the consumers' interests. This is partly responsible for the relatively slow progress of the co-operative store movement.

Other Types of Co-operative Societies

Marketing

Of the four different types of co-operative societies previously mentioned, in addition to the co-operative credit, co-operative

marketing has made the most conspicuous development in recent years, mainly owing to the increase in the sale of rice, which necessitates collective action. The amount of rice handled by the co-operative marketing societies has increased, not so much in the sale to the ordinary market, as in the sale to the Government at the minimum fixed price, because of the Rice Control Law. Under such circumstances the successful record of the co-operative marketing societies cannot be regarded as indicative of their own merit, as it is rather due to the result of the Government's policy.

Purchasing

Co-operative purchasing societies have also made some progress, which may be attributed to the increasing desire on the part of the farmers to purchase fertiliser by the collective method. In 1934 the amount of fertiliser handled by the co-operative purchasing societies reached approximately 1,120,000 metric tons or 32 per cent. of the entire sale in the same year. By thus participating in the co-operative purchase system the farmers are able to lay in a stock of fertiliser at low prices. In some places other articles of daily use, such as rubber shoes, etc., are also handled by the co-operative purchasing societies. Furthermore, in some districts there have been established co-operative factories to make goods of everyday use, such as boots, shoes, *zori* (slippers), which are sold to outsiders after the members' needs are fully satisfied. But this kind of co-operative society falls in the fourth category: the utilisation co-operative societies.

Co-operative Store

The movement began in Japan only thirty years ago and only since the World War has its activity become significant. At present there exist more than thirty co-operative stores in Tokyo alone, which are grouped into two federations with about 3,000 individual members each. In all, Japanese stores on a co-operative basis number 125,000, with a volume of business reaching 10 million yen a year.

They can be classified in three groups:

1. *General Stores.* Open to all classes, with the object of supplying the members with good articles at low prices.

2. *Employees' Stores.* Set up by industrial and commercial concerns or some Government department, for supplying good articles at low prices to workmen or employees or officials.

3. *Students' Stores.* The purpose being to reduce school expenses, and to provide at the same time a co-operative training. There are also co-operative building societies for the purpose of building houses for members, and co-operative electric consuming societies for the purpose of participating in the consumption of electric power. The former at present roughly totals 2,700 unions with 59,000 members. The number of the latter is still negligible, but is increasing every year.

Utilisation Co-operative

Utilisation co-operative has not yet made any appreciable progress. However, with the depression of the last few years the problem of industrialisation of farming districts came to the fore, and the Government began to encourage the farmers to take up, as a side line, some industrial trade. For this purpose the need of utilisation co-operative societies was keenly felt as being a measure to combat the depression. There is no doubt a promising future for this type of co-operative. The Agricultural Ministry has recently made an elaborate estimate regarding a possible subsidy to the co-operative industrialisation of farming districts through the utilisation co-operative method. The estimate was made public with the following figures :

	In thousand yen	
(a) Industry with fruit and vegetables as raw materials	1,970	24·3
(b) Manufacturing of oil and flour	1,668	20·6
(c) Industry with cattle as raw materials ...	574	7·1
(d) Industry with by-products as raw materials	347	4·3
(e) Textiles	1,204	14·9
(f) Wood and bamboo	1,317	16·2
(g) Sundries	748	9·2
(h) Manufacturing of parts of machinery ...	284	3·4
	8,112	100·0

There are reasons to hope that this class of co-operative business may eventually advance to the front.

CHAPTER XVII

Conclusion

All well-informed observers of Japanese economics and finance are cognisant of the fact that the remarkable progress which Japan made during the last sixty years was mainly due to the following:

Morally: the will to do things whether right or wrong, and whether " right " or " left." The Japanese people at that time were not victims of any ideology, hence ideological conflict was not so strong as to destroy their harmony and to mar their progress. The mistakes committed during the time of the restoration, sometimes quite naive, brought forth various remedies and served as good lessons. The Japanese people gained much from those mistakes. The victory of the liberal elements over the conservative, due to the liberal spirit of Emperor Meiji, set the wheels of progress going. The result is the mighty Japan of today.

" The late W. E. Griffis once wrote that one of the most noteworthy traits of the Japanese character is an instant ability to discard the old when confronted by something new that is also better."—(Dr. J. A. B. Scherer.)

Materially: the hydro-electric energy, supplying motive power for industries, and the policy of money and banking supplying necessary capital and credit; these have resulted in the prosperous Japan of today.

" Japan appropriately utilises the hydro-electric energy in which she is rich, so rich as to largely compensate for the deficiences in iron and coal . . . she had 99 h.p. to the square mile as against 20 h.p. in the United States."—(Dr. Scherer.)

We are not concerned with the moral side nor the electric supply, however interesting these questions might prove to be. This book deals with money and banking, and the reader has been informed as to the development of both in various stages. It remains now to conclude this discussion.

Japan can be said to have struck out on the right path in regard to her money and banking policy, as the gigantic forward strides in her credit structure bear witness. Owing to wise policy, her agriculture is maintained, her industries prosper and her commerce expands, bringing in immense wealth which sustains the tremendous burden of the Defence Services with an ample surplus for the maintenance and the improvement of her material and spiritual civilisation.

Strictly speaking, the remarkable achievements during the last sixty years in the face of all the natural handicaps were due more to the agents than to the system itself. It is to the credit of their determination, rather than to their knowledge, that the Nipponese succeed in creating from a cluster of volcanoes a country of first-class power.

Owing to lack of knowledge and experience many wrong policies were adopted and pursued, naively sometimes, until mistakes were discovered through sheer practice. Then a reorganisation would take place, using past experience as guidance, until good results were attained.

Japanese history is replete with proofs that the people of the brilliant era of Meiji were the most productive agents the world has ever seen.

Of all the policies adopted and pursued, those pertaining to money and banking deserve the first place, as it was money economics which transformed the once third-class into a first-class country. If this problem had not been successfully tackled this nation might have become, in all probability, a colony of some Western Power. Considering that the science of money and banking fifty years ago was confusion worse confounded, a tribute should be laid at the door of Japan for her accomplishments ; for her people were working under various handicaps, national as well as natural. Further praise is also deserved by these people who, having triumphantly turned all to good account, nevertheless do not live in the illusion of their glory, but are striving continually to remedy their shortcomings.

The evidence of this is shown in their pleasure and thankfulness when listening to constructive criticism, which is welcomed from all nationals and foreigners alike.

It is a well-known fact that Japan owes its greatness to the Japanese of the Meiji era, who, to their merit, built up the political and economic structures, some of which they completed, and of others they laid the foundation stones. The duty of their descendants—the people of Taisho and Showa eras—was only to complete "the carpets woven through

years of prayers." However, at present a widespread apprehension lurks in the minds of the Japanese of intellect and foresight as to the future prospects of the empire. Such apprehension seems nevertheless a little exaggerated, yet if it is justified it arises from the significant change representing a swing that has taken place in this country mostly since the Manchurian incident. The significance of this change is made clear by the pen of Mr. Nyozekan Hazegawa, writing in the *Nippon Hyoron*:

"The Meiji type stands on the whole, the Showa type (present day) stands on parts. The Meiji type is amateurish, the Showa type is professional. The Meiji type is kindergarten, the Showa type is aged. The Meiji type has roots, the Showa type has no roots, being only branches and leaves. The Meiji type is old yet new, the Showa type is new yet old.

"The Meiji era was a crude creative age, and thus it was necessary to decide on the whole and not its parts. It was a period when amateurs had to get together to do things. The language used was childish and plain. It was the time to decide in what direction Japan should advance. They used new things but they returned to the old, and thus the Meiji type was old but new.

"The Showa type has become clever in every way, just like a department store, lacking both tradition and creation. It lost the whole and emphasises parts. Details are respected and admired.

"The Meiji-type politicians thought of the whole and their ideas were childish, not having time to think of minor details; but the Showa-type politicians have become experts in details, not realising the whole. The Meiji politicians discussed great fundamental problems in poor language and childish ways. The Showa politicians came to excel in language and expression, but failed to discuss basic questions. The Meiji politicians worked with shovels to dig a big canal, the Showa politicians are using steam dredgers to dig a little ditch . . .," and the writer went on courageously to condemn the spirit of the present fighting services compared with the old, but this dish is served only to his compatriots and bears no relation to the subject we are discussing.

In the sphere of money and banking we may bring out some of the ailments which are no secret to the Japanese financiers. But to list all the defects of the Japanese money and banking system would be to tax the reader's patience beyond endurance, so only the salient points need be discussed. Generally, a

sufficiently good system does not exist in any country's monetary and banking arrangements, and this is far from an exaggeration. Again, no system is practical for all times; hence endeavours to correct and readjust the financial system become everywhere a permanent effort.

As has been pointed out, the first and the gravest defect in the Japanese financial system lies in the weakness of the Bank of Japan. This is only natural, because the central institution forms the hub of the financial wheel. The Bank of Japan had certainly stood the country in good stead; but this was due to the quality of the officials of the bank, who worked it with intelligence, rather than to the merits of the system. The Japanese financiers and business men are well aware of this fact, consequently efforts have been directed towards its improvement. But the fundamental defect lies in the bank's subservience to the State and to the Executive, instead of to the Legislative power; hence its weakness is the result of the political structure of the country rather than of her financial policy.

The second defect lies in the formation of the ordinary banks, which the Government, perhaps adhering to the prevailing principle of "banking is a trade and only a trade," had too long left to take their own course.

Throughout the period after the Russo-Japanese War, that is during the last thirty years, both the capital and deposits of the private banks reached a significant figure and continued to increase enormously; but in spite of that the country has suffered severe setbacks due to defects of organisation. In the earlier part of this period financial crises and bank failures were periodic occurrences, just as in England during the early part of the nineteenth century.

Mr. A. C. Allan has admirably analysed the cause of these disasters and attributed it to the greed for gain of the bankers from long-period loans, resulting in locking up a huge proportion of their funds. He said that although Japan had long ago reached a combination stage in many branches of its economic life, and although the more important trades and industries were knit together by price associations, even more closely than in England, in the sphere of banking this development was in its infancy.

The reader may remember the recent failure of no less than 10,000 banks in the U.S.A. owing to the defects of the banking system. The same cause and effect has been operating in Japan in like manner. The more the private banks multiply in number, the weaker is the central control. In Japan both

deposit and savings banks multiplied, but at the same time they drifted apart one from the other, for want of any system of correlation. In 1901 there were 2,355 independent savings and deposit banks; in 1909 the number was reduced to 2,155 by amalgamation; in 1928 it was further reduced to 1,157, and in 1933 to 637 with 4,868 branch offices and with an aggregate paid-up capital of 1,681,927,369 yen. It is evident that up to 1928 the financial strength of the country was dissipated instead of being consolidated. The tendency has been towards a reduction in the number of independent banks. The process should have been carried out much more quickly than it was, as many of these banks were very small. Up to 1928 only 550 worked within a paid-up capital of over 1 million yen and more than 1,000 had capitals of less than 500,000, and some even had as little as 50,000 yen.

But this situation was an inevitable outcome in a newly developing country with its industry advancing so rapidly that a shortage of capital funds was continually felt. The Government had foreseen this eventuality and met it with the establishment of special institutions.

Although these institutions, such as the Hypothec Bank and the Industrial Bank, were freely operating to redress that shortage, they could not fully catch up with the growing demands, and the consequence was the birth of many small and unsound banks whose promoters were enticed by good investments backed up by solid security in the form of real property. These small banks recklessly took up long-period operations, whereas the large banks, endowed with business sense and sound judgment, observed more strictly the banking principle and pursued a more cautious policy.

When this condition had been going on for some time, each bank being allowed to pursue an independent course according to the dictate of its individual interest, in 1921 it was realised that the ordinary banks had advanced on land mortgages the enormous amount of more than 1,000 million as against 600 million lent out by the official agricultural and industrial banks. The situation was alarming enough, as a big proportion of the assets of the deposit banks was tied up in securities which could not be readily converted into liquid funds. The result was the failure of many banks, although these banks had acted in good faith, albeit with poor judgment.

From that time the Government continued earnestly in its endeavour to encourage amalgamation in order to consolidate the banking system. In 1921 an Act was passed providing for

the merging of the local agricultural and industrial banks into the Hypothec Bank.

Moreover, the new banking law passed by the Imperial Diet in extraordinary session during the financial panic of 1927 provided for forced mergers, so the amalgamation of ordinary deposit banks has been going on ever since. But the process has been too slow, consequently financial crises have occurred again and again, forcing the less efficient institutions to retire and thereby increasing the importance and the strength of the larger banks.

Out of the 966 banks which have gone out of business in the past nine years, 733 were merged into larger banks and the remaining 263 had to liquidate as the result of the enforcement of the new Banking Act. In 1935 the number of banks which went out of business was only eleven, and in 1936 ten. The Finance Ministry now feels that if the merger policy continues, the country will not have enough banks for normal business, and therefore forced mergers are no longer desirable.

Before the war the benefits of branch banking were not yet fully recognised; only large private concerns and official institutions established their branch offices in the important trade centres, but the number of branches was negligible as compared with the number of independent banks. Only since 1914 has there been an increase in branch banking; but as compared with the same movement in other important countries, the increase is slight. The reason may be found in the difference of conditions prevailing in Japan and elsewhere. In other countries, as Mr. A. C. Allan asserted, the rapid development of the stock exchange and the growth in the number of reliable, marketable securities facilitated bank amalgamation and at the same time the development of branch banking. A basis of credit was thus provided requiring no personal knowledge of the borrowers' character and affairs. Whereas in Japan such securities were not so easily available and personal credit or real estate became the security for a greater part of the bank advances.

In the writer's opinion there has also been another cause, perhaps less influential than Mr. Allan's suggested reason, which retarded the progress of branch banking. That is, the lack of trained men to direct the business of branch offices. It is only lately, since the head offices have been functioning with success during a certain period, that competent men have been available, hence branch banking was not undertaken until after 1914. Another reason was pointed out by Mr. Allan himself in

1928; namely, that a branch bank is ill fitted to grant loans on the security of real properties, and until circumstances change it is doubtful if much development in this direction is permissible or even desirable. By now he may have been pleased to see that the actual situation is changed for the better, and that Japan is on her way to the full development of branch banking. At present the authorities even have to restrict the establishment of branch offices, in order to avoid too close competition, when competitive interests may influence the bankers to depart from the proper banking policy.

Another defect in the financial organisation of the country lies in the lack of co-ordination between the ordinary banks and the exchange banks. Until 1914 the exchange business was undertaken only by the official institutions and a few foreign banks. The reason was the lack of a regular discount market from which the exchange banks could draw funds. This situation made the Bank of Japan the only source. But only a very few ordinary banks had close connections with the central organisation. Consequently even big banks engaged only in domestic finance and hesitated to transact any foreign exchange, which was almost wholly left to the official Yokohama Specie Bank. The lack of this co-ordination between domestic and foreign finance caused serious difficulty after the outbreak of the Great War. The increasing exports of the country brought forth a huge accumulation of foreign bills in the Y.S.B., which found no means of disposing of them (see chapter on Y.S.B.) even with the help of the Central Bank. Naturally the Y.S.B. had to fall back on the Bank of Japan for funds to finance exports, which obliged the latter to swell the amount of note issue. The inevitable result was the rise in commodity prices consequent upon the inflated currency. In 1917 when the U.S.A. placed an embargo on gold export the difficulty here was further aggravated. In 1918 the Y.S.B. tried to relieve the burden of the central bank by itself borrowing in the open market, but another serious effect ensued in the shape of a sharp competition for deposits between the commercial and the exchange banks. The situation was not improved until 1919 when banker's acceptance was adopted and a discount market established. Several ordinary deposit banks then commenced to transact foreign exchange business, but they were hampered by the quasi-monopoly of the official Y.S.B. Even at present, when the ordinary banks have increased their exchange business, the Y.S.B. is still the controlling factor in the exchange market, as it enjoys so close a connection with the Bank of

Japan and, itself being an official institution, has charge of the nation's foreign balances. This fact accounts for a considerable "spread" between the rates of exchange quoted by the ordinary banks and the Y.S.B.

If viewed from the standpoint of the European financial theory, another fact can be considered as a source of weakness in the Japanese banking system, and that is the departure from strictly banking business. Many important private banks have a too close connection with certain trades and industries, with the aim and purpose of rendering those enterprises independent of the outside money market. Some of the most important private banks, like the Mitsui and the Mitsubishi, were established with the specific aim and purpose of helping their own trade and industries. These banks were the creation of great trading firms owned and controlled by certain great business families which have played and still play a leading part in the country's economic development. Thus the interest of these banks does not centre on pure banking business but on all the industrial, commercial and financial undertakings of a particular group of business men. The banks were established no doubt for the purpose of strengthening the families' own business in other branches of economic activities, so as to render it secure and independent of outside sources. Although these banks are among the soundest of the country and their operations are consistent with sound banking methods, yet they are liable to cause many disadvantages from a national standpoint. They may make it difficult or even impossible for the Government to launch or execute any financial policy which may conflict with the immediate interests of certain groups of industrialists; as these powerful bankers, whose co-operation is absolutely necessary for the carrying out of any economic or financial programme, are industrialists themselves and not pure bankers. The disinclination of the authorities to embark on the policy of deflation in 1920 is a case in point. Another instance is the scheme for State monopoly of electric generation. In spite of the wide power of the Ministry concerned, backed by the whole force of the fighting services—Army and Navy—the scheme could not be pushed ahead, owing to the vested interests dragooning all the bankers and industrialists to their side in opposition to the plan.

This defect accounts for the continual conflict between the capitalists and the fighting services.

While these apparent disadvantages may appear serious from the European banker's point of view, yet they are politically

beneficial to Japan, as they constitute a guarantee of the balance of power between the purse and the sword. Moreover, the harm which may be produced by such a situation is very much minimised by the attitude of the Japanese capitalists themselves, who are at heart patriotic and ready for any sacrifice for the country. Between the Japanese and European capitalists there exists a wide difference. One illustration may be cited: during the Sino-Japanese War and the Manchurian incident not one Japanese bullet was found in the hands of the Chinese soldiers, whereas in the Great War numerous French and German soldiers were killed by bullets and bombs manufactured by their own countrymen.

In conclusion, the most serious weakness of Japan's banking system lies in the feeble position of the central bank confronting the money market. It is a matter of astonishment to see how periodic financial crises are avoided. They are averted not by chance or accident but by the devotion of Japan's excellent operators. However, this defect should not be left to take its own course; yet it cannot be overcome until the Bank of Japan undergoes a fundamental change so as to consolidate its power and to co-ordinate the banking activities of the country, by securing an absolute control over the credit policy of other banks.

With Mr. Seihin Ikeda as governor of the bank some hopes are rightly entertained that such a remedy is not far distant. Already efforts in this direction are being directed towards a revision of the Bank of Japan Act.

With regard to Japanese finance the reader is recommended to read the Annual Report of the Ministry of Finance of Japan, by whose courtesy a part of it is reproduced as an appendix at the end of this book.

However, it may not be out of place to state again the most serious ailment of the country's finance which has already been discussed in the chapter on Y.S.B., but which appears to merit emphasis. This chronic malady rests in the unfavourable balance of payments, due to excessive imports. In that chapter the reader's attention was drawn to various cures and palliatives. It suffices to stress here the cure, which seems to receive inadequate consideration on the part of the Japanese bankers and industrialists, although the Government is fully alive to this cure and has been doing its utmost to promote it. It is with good intentions and a genuine love of the country that this remedy is repeated in this chapter, with a view to bringing it home to our Japanese friends. Those who know well the

Japanese spirit of Bushido cannot fail to foresee that this problem will be energetically taken up eventually.

The redress of the chronic, unfavourable balance of commerce to be effectively carried out lies in foreign investments; that is, capital investments in other countries which will bring in sufficient income to counteract the adverse balance of indebtedness.

Japan should spend very much more in foreign investments. Mr. Aiichiro Toyama struck a warning note when he asserted that "The leaders and controllers of the banking and enterprise circles are at present either second generation capitalists or their *banto* (managers). The second generation man who inherited an enterprise from his father is of a mind for preserving it and following the easy path rather than expanding his business positively. They have no ambition to push forward. As a result the so-called capitalist families are almost entirely run by *banto* politics. The *banto* follow the negative policy of preservation. Thus it is quite natural that the present capitalists are so inactive, being utterly different from those business men who rose from poverty and fought against heavy odds and difficulties."

This fact accounts for the meagre amount of Japanese investments in foreign lands.

But with such men of wide experience and close knowledge of economics and finance, endowed with wonderful foresight, as Messrs. Seihin Ikeda, Eiichi Baba, Toyotaro Yuki, Okinori Kaya, Juichi Tsushima and others at the helm of the nation's financial policy, all the remedies will be carried out in course of time, and Japan will emerge very much stronger. Such is the hope and expectation of those who are interested in seeing her play her part worthily as a financially responsible member of the Family of Nations.

APPENDICES

OPERATIONS OF THE TOKYO STOCK EXCHANGE

By Rinichiro Sugiyama

I. INTRODUCTORY REMARKS

1. *Early Produce Exchanges*

(a) As early as the seventeenth century there were exchanges established for transactions in rice.

Note.—At that time the income of the feudal lords was chiefly in the form of rice collected as taxes. Rice was the principal currency of the times, and the surplus stock of rice accumulated was disposed of in the rice exchanges, special rice brokers being engaged in the business.

(b) When the rice exchanges first made their appearance, dealings were all on a "cash basis," but subsequently a special system of time bargains was devised which ultimately developed into a definite form of exchange transactions.

(c) The system contrived developed afterwards into a mere gambling device, the traders meeting without making actual delivery, but only settling on settlement days the differences between contract prices and the prices prevailing on delivery dates.

(d) Government authorities before and after the Restoration always tried to remedy abuses resulting from such operations.

2. *Law of Exchanges and Establishment of the First Stock Exchange*

(a) After the Restoration, the Government made attempts to effect reforms in the organisation and administration of the numerous produce exchanges.

(b) With the movement for the establishment of business along Western lines and the appearance of joint-stock companies following the Restoration period, there resulted a demand for stock exchanges.

(c) To this end the law of exchanges was passed in November 1873, this being revised in August 1876.

Note.—The rice exchanges successively opposed the application of the law to their transactions.

(d) This law provided that:

(1) exchanges shall be joint-stock companies,

(2) and that brokers shall have no connection with the exchange organisations,

(3) but be under the control and discipline of the exchanges.

(e) When this new exchange law was passed, application was made for the establishment of an exchange in Tokyo, for the purpose of dealing in negotiable securities.

Note.—Principally the Government bonds which had been issued in connection with the feudal pensions and currency reform.

(f) The application was granted, and in May 1878 the Tokyo Stock Exchange came into being with a capital of Yen 200,000.

Notes.—1. It started business on June 1st, being followed ten days later by the Kitahama Stock Exchange of Osaka. The Tokyo Stock Exchange was not established until August 1883.

2. At present its authorised capital is Yen 50,000,000, of which Yen 42,500,000 is paid up.

(g) The law of exchange was still found to be inadequate and from time to time further revisions were made in its provisions.

(1) The investigation of European bourses was completed in 1893 and the Japanese system was remodelled.

(2) The law of exchanges (Law No. 146 of 1893) was further modified in 1914

(3) and again in 1917,

the purpose of this being to correct certain abuses which had crept in, but such changes in the law were accomplished only with difficulty.

(h) The Law of Exchanges of 1893.

(1) Exchanges

(i) may be established in important commercial towns
(ii) may be established with the special permission of the competent minister
(iii) may be either a joint-stock company or a partnership
(iv) those established as joint-stock companies must have a share capital of not less than 100,000 yen.

(2) Transactions therein are to be carried on solely by brokers, whose contracts must be made on their own account.

(3) Penalties provided for the operation of

(*a*) bucket shops

Note.—Bucket Shop Dealings : Bucket shop—a fake brokerage house where bucketing (=the illegal practice of buying and selling stock on paper without any actual transaction. The broker sells or buys against his customers' orders) takes place. The bucket shop is a place

where the broker bets against the customer without his consent.

Anti-bucket shop laws have been enacted in most countries, and the rules of every reputable exchange expressly prohibit the bucketing of orders, violations being punishable by expulsion.

(*b*) manipulation

Note.—Manipulation : This term indicates the action of artificially raising or depressing prices. The course of prices on an organised market may be artificially influenced by numerous devices, including pools or corners.

(*c*) publication of fictitious rumours.

II. THE LAW OF EXCHANGES OF 1914

(1) The status of exchanges
(2) The status of brokers and officers of exchanges
(3) Methods of effecting transactions
(4) Exchange Tax Law

(1) The Status of Exchanges

1. Government sanction required for the establishment of exchanges.

2. Brokers must have a Government licence.

3. Government's approval required for :

(a) appointment of president of the exchange ;
(b) management of the exchange ;
(c) enactment or modification of by-laws, rules, and regulations.

4. Government officials may inspect the books and assets of exchanges and the books of members and brokers.

5. The Government may revoke any sanction granted and may suspend trading where an exchange is deemed to have failed to comply with the law, or where its actions are held to be against public policy.

6. The exchanges, if they are joint-stock companies, must deposit with the Government a guaranty fund equal to 20 per cent. of their working capital.

7. The following reports must be made by the exchanges and are subsequently published by the Ministry :

(1) Report of market prices on exchange.
(2) Report of sales and purchases on exchange.
(3) Inventory of exchange property for each business term of six months.

(4) Statement of all loan accounts for each term.

(5) Profit-and-loss account for each term.

(6) Information concerning the course of business.

(7) Names of shareholders and number of shares held by each, at the end of each term.

(8) Names of brokers at the end of each term.

8. The exchanges must hold themselves responsible for the payment of income tax of brokers.

9. Exchanges may own, buy, and sell property as legal persons.

10. Exchanges may own warehouses for commodities dealt in and may issue warehouse receipts, warrants, and certificates of pledge.

Note.—This applies to produce and commodity exchanges.

11. Exchanges may not make loans against such security nor buy it on their own account.

(2) The Status of Brokers and Officers of Stock Exchanges

(*a*)

1. Brokers must deposit at least 5,000 yen as a guaranty.

Note.—In the case of produce and commodity exchanges the amount of guaranty varies and is usually far less.

2. Exchanges can draw on such deposits when brokers fail to live up to the contract.

3. When brokers fail to carry out instructions of customers after the receipt of commission

(a) they may be suspended from operation in the exchange for three months

(b) they may be subjected to a fine of five times the amount of the exchange tax involved.

4. If brokers go bankrupt exchanges can exercise the preferential rights to the brokers' assets.

5. Brokers must report to the Ministry concerned through exchanges the amount of their monthly sales and purchases.

6. Brokers' income taxes shall be paid once a month.

7. Brokers must keep accurate accounts of their transactions.

8. Brokers' books must be open to inspectors of exchanges or the Ministry concerned.

9. Brokers may be stockholders of exchanges.

(*b*)

Officers of exchanges are prohibited from having any interest in a brokerage business either on their own or on others' account.

III. METHODS OF EFFECTING TRANSACTIONS

Two methods are employed in transacting business:

(1) Transaction as Between a Body of Buyers and a Body of Sellers

(a) An officer of the exchange calls out a certain quotation for a certain stock.

(b) Brokers having that stock for sale call out the quantity they can sell at the price mentioned.

(c) Brokers as bidders, on their part, also call out the quantity they can buy at the price.

(d) If the quantity offered is more than the quantity of purchase the officer lowers the bid. Vice versa, if the quantity offered is less than the quantity of purchase, the officer raises the bid.

Note.—If the demand is less than the supply the bidding price falls. If the demand exceeds the supply the bidding price rises.

(e) By this means supply and demand are equalised, when the bidding price becomes the price of the exchange.

(f) All contracts are closed.

Notes.—1. The amount of the quantity the brokers sell or buy is indicated by signs made with the fingers.

2. Selling and purchase are differently indicated by showing either the palm or the back of the hand.

(2) Transaction as Between Two Brokers

(a) Two brokers, one as a buyer, the other as a seller, make a contract.

(b) The said contract is entered in the book of the exchange.

(c) Two other brokers make another contract for the same stock.

(d) When another contract is entered in the book the first contract is deemed to have been made at the price of the second, and so on until the last entered price is announced, all contracts being then deemed concluded.

(e) If any pair of buyers and sellers mutually agree not to have their contract concluded at the final terms, they must reverse their transactions.

Note.—Such transaction is called "covering." The one who was a buyer must sell, and the one who was a seller must buy. This covering transaction of course must be concluded before the final price is announced.

IV. WORKING OF THE TOKYO STOCK EXCHANGE

(*a*) General Remarks

A.

The Tokyo Stock Exchange, the premier organisation of its kind in the Empire, is a limited company capitalised at Yen 47 millions divided into 940,000 shares of Yen 50 each. Article 2 of the Articles of Association states its object as "the permitting of licensed brokers to carry on business transactions in securities"; and as there are various Governmental and other regulations governing such transactions, it would be more logical to add "in accordance with laws and regulations."

B. Brokers of the Exchange

In order to become a broker, that is, to acquire a seat on that exchange, one must be a Japanese subject; in the case of juridical persons, the controlling interests must be in the hands of Japanese subjects. The acquisition of a seat, moreover, requires formal application; and such application is rarely granted except to persons of unimpeachable reputation.

The brokers are divided into four categories: (1) general brokers, (2) short-term brokers, (3) spot brokers, and (4) national loan bond brokers.

(1) General brokers may effect long-term transactions in shares, that is to say, time transactions exceeding a period of seven days. This is, incidentally, the only class that is entitled to call itself simply "brokers." They are limited in number to eighty-one. With the permission of the Exchange's President they can additionally effect the business done by classes (2), (3) and (4), the minimum deposit of security being Yen 150,000.

(2) Short-term brokers' business is limited to short-term transactions in shares, that is to say, to time transactions not exceeding seven days. They are limited in number to 100, and the minimum security required of them is Yen 100,000. With the approval of the Exchange's President, they can additionally do the business of spot or national loan brokers by depositing an extra Yen 30,000 or Yen 60,000, as the case may be.

(3) Spot brokers* may effect spot transactions in shares, that is to say, the spot purchase or sale of actual shares. They are limited in number to 100. With the approval of the Exchange's President, and by depositing Yen 50,000 as security over and above the required Yen 30,000, they may in addition act as national bond brokers.

* Provided for in the Articles, but not yet established as a separate class.

(4) National loan bond brokers are limited to deals in such securities as national loan bonds, local loan bonds, debentures, and foreign government bonds, but they can also act as spot brokers by obtaining the Exchange President's approval and depositing as security Yen 30,000 over and above the required Yen 30,000. They are limited in number to fifty.

Most of these classes of brokers have offices in or near the Tokyo Stock Exchange Building in Kabutocho, Tokyo, with direct telephone lines connecting with representatives on the actual floor of the Exchange.

C. *Officers of the Tokyo Stock Exchange*

1. The officers of this Exchange consist of one president, not more than seven directors and three auditors to be elected at a general meeting of the shareholders.

2. To become officers of the Exchange, Government permission is required.

3. Officers of the Exchange are usually elected from among men of tested ability and of experience.

4. The president and directors form the board of directors, taking charge of the management of the Exchange in accordance with the provisions of the Articles of Association, and the law, by-laws, and regulations for the conduct of the business of the Exchange.

5. List of officers :

President	Kisei Sugino
Managing Director ...	Kaoru Ban
Do. ...	Mitsuo Oguchi
Do. ...	Magoichi Mori
Director	Magoyemon Matsumoto
Do.	Reikichi Nanba
Do.	Gunshiro Mochizuki
Do.	Aiichiro Fujiyama
Standing Auditor ...	Ryosuke Katsube
Auditor	Shiro Kubota
Do.	Reinosuke Suga

Note.—The number of the employees who attend to various duties by assisting the officers has steadily increased with the expansion of the scope of the business of the Exchange, these, at the end of 1936, numbering 758.

D. *Councillors of the Tokyo Stock Exchange*

1. Besides the officers, the Exchange has a permanent Board of Councillors with which the management of the Exchange places inquiries in regard to important affairs relative to the Exchange so as to keep close connections with the brokers.

2. The councillors consist of three elected by and from among the officers and twenty-two elected by and from among the brokers.

E. Exchange Building

1. The place where all the deals are operated is a vast rectangular hall; its centre is lined with little booths, each of which is connected with each broker's house by direct telephone, while the whole floor is packed with a mass of brokers' employees.

2. On raised platforms running down two sides of the hall stand groups of officials of the Exchange, consisting of:

(a) Price auctioneer
(b) Recorders
(c) Inspectors, etc.

(*b*) KINDS OF TRANSACTION

In the Exchange are operated four kinds of transaction:

(1) Spot
(2) Short-term or deferred
(3) Long-term or time
(4) National bonds.

(a) Spot transactions are operated by the payment of cash: the other three transactions are operated on "margin money."

(b) *Spot* transactions are completed within fifteen days. *Short-term* transactions may be completed within seven days according to the provision of the Imperial Ordinance. In practice at the Tokyo Stock Exchange such transactions may be completed within two days.

Long-term transactions may be completed within ninety days.
National bonds transactions may be completed within sixty days.

(i) *Long-Term Transactions*

1. The long-term market is for shares for delivery during:

(a) Current month ... ... (tō-giri)
(Delivery date at the end of this month)
(b) Following month ... ... (naka-giri)
(Delivery date at the end of the following month)
(c) Month after ... ... (saki-giri)
(Delivery date at the end of the month after)

2. There are two markets daily:

(a) Morning Market ... ... (Zen-ba)
(b) Afternoon Market ... ... (Go-ba)

Note.—Morning Market begins at 9 a.m.
Afternoon Market begins at 1 p.m.

3. All stocks are traded in twice in each session :

(a) Opening Session ... ... (Yori-tsuki)
(b) Closing Session ... ... (O-bike)

4. As each of the listed stocks can be traded in each session in each market for three different periods of delivery there are altogether twelve quoted prices.

(ii) *Methods of Trading by Auction for Long-Term Transaction*

(a) The Stock Exchange Act prescribes that the long-term trading in any Stock Exchange shall be operated by means of auction, the twelve official prices being thereby settled as is indicated below :

Note.—Supposition :

$\left.\begin{array}{l} A \\ B \\ C \\ D \\ E \end{array}\right\}$ Brokers' representatives

X ... Price auctioneer
Y ... Recorder
Z ... Inspector

$\left.\begin{array}{l} O \\ P \\ Q \end{array}\right\}$ Customers

Trading commences for *K* Stock in the first section
L Stock in the second section
M Stock in the third section

Trading for *K* Stock in the first section :
A Representative of Brokerage House *A*
B Representative of Brokerage House *B*
C Representative of Brokerage House C
D Representative of Brokerage House *D*
E Representative of Brokerage House *E*

each of these representatives stands on the floor below first section platform with his party consisting of those who attend to telephone communication and recording.

(b) Auction process :

1. Trading commences for *K* stock in the morning market for delivery by the end of this month :

$\left.\begin{array}{l} \text{the name of stock} \\ \text{delivery month} \\ \text{opening session} \end{array}\right\}$ indicated on wooden board.

2. Customer *Q* orders Broker *A* to buy 100 shares of *K* stock @ 50 yen.

A indicates (by finger) he buys 100 shares @ 49·50 (yesterday's closing price in the afternoon market quoted 50 yen).

X announces (by finger) to the crowd *A's* intention.

3. No one is willing to sell at that price.

4. *A* bids 49·*60*.

X announces *A's* bid price.

5. Still no one comes out for sale.

6. *A* bids 49·*70*.

X announces *A's* bid price.

7. *B* offers 50 shares @ 49·*70*.

Note.—Should the price agree the transaction is to be settled even though the quantity may not exactly match.

The transaction is made as *A* buyer of 50 shares of *K* stock @ 49·*70* and *B* seller of same amount of stock at same price. *Y* makes records of the transaction (quantity and broker's name).

8. *A* has to buy 50 shares more of *K* stock but no one comes forward to sell it at that price.

9. *A* raises the bidding price to 49·*80*.

X announces *A's* bid price and quantity demanded.

10. No one comes out.

11. *A* bids 49·*90*.

X announces *A's* intention.

12. *C* comes out as seller of 50 shares @ 49·*90*.

13. The transaction is made as *A* buyer and *C* seller.

Y makes records of the transaction (quantity and broker's name).

14. No one comes forward either for sale or purchase.

15. Price auctioneer beats wooden clappers which indicates 49·*90* as officially fixed price.

Note.—Zen-ba
Yori-tsuki } price is thus fixed
Tō-giri

16. The first contract entered into @ 49·*70* is now deemed to have been made at the price of the second contract.

Note.—All contract for stock is deemed concluded at the last entered price, which is announced from the rostrum by indications made on a wooden board.

17. Instead of No. 14 supposition, *D* comes out as buyer of 100 shares @ 50·*10*.

A may fear that the contracts are likely to be closed at a price unfavourable to his customer, for the latter ordered him to buy @ 50, while the contract price is now changing to 50·*10*.

18. *A* makes reverse transaction (covering transaction) by offering to sell 100 shares @ 50·*10*.

Note.—Such covering transaction must be concluded before the auctioneer announces the settled price. This method of trading allowing brokers to reserve their commitments in a very short space of time gives rise to commotion and tumult on the floor, which is plainly noticeable by any visitor to the Exchange.

X announces *A's* transaction.

19. *X* beats wooden clappers. Official price is indicated as 50·*10*. In the Stock Exchange book the transactions are recorded thus:

B seller	50 shares	@ 50·*10*
C ,,	,,	50·*10*
D buyer	100 ,,	50·*10*

In the Stock Exchange book, *A's* transactions are recorded as: 100 shares of *K* stock—bought and sold, transactions being thus set off.

20. *A* therefore retires from the transaction.

21. Trading is conducted in this manner twice for each of the three different terms of delivery.

22. When in the afternoon market the official closing price (for example 50·*20*) is settled by auction, such price becomes the contract price for *B*, *C*, *D* as indicated in 19.

23. *D* receives profit balance of 10 sen per share.

B pays loss balance of 5 sen per share.

C pays loss balance of 5 sen per share.

24. *B*, *C*, *D* awaits the official price to be quoted at the time of delivery at the end of the month.

(c) Nature of Transaction.

1. Transactions are not as between a single buyer and a single seller (for example: *B* does not know who buys the stock he has sold, for *A* has retired from the transaction, etc.), but between a body of buyers and a body of sellers. The transactions may be regarded as a body of buyers having bought stock from the Stock Exchange, and a body of sellers having sold stock to the Stock Exchange.

2. The Stock Exchange therefore is so constituted that it offers a guaranty against all losses arising from failing on the part of its brokers to carry out contracts made.

3. The Tokyo Stock Exchange, organised as a joint-stock company with a paid-up capital of 50 million yen, can without much difficulty

take up such responsibilities to the full extent of the property it owns as a joint-stock company.

4. The system of the Stock Exchange offering guaranty for the fulfilments of broker's contract is the most significant feature of the Japanese Stock Exchange.

(d) Unit Accounting Boundary.

1. Example : Tokyo Stock Exchange Stock (new)

Delivery month	Morning Market		Afternoon Market	
	Opening Session Price	Closing Session Price	Opening Session Price	Closing Session Price
Current month ...	98	100	99	102
Next month ...	102	103	103	105
Month following ...	107	108	107	110

2. Transactions contracted for any delivery month at any price during any session at any market must be adjusted to the price of closing session of the afternoon market, the regulations of the operations of the Tokyo Stock Exchange ruling that a unit accounting boundary should be a day.

3. All commitments entered into for the current month delivery at various prices (for instance : 98, 100, 99) are deemed to have been made at 102, this last price being entered in the book of the Exchange as a real contract price.

	98		
Delivery in current month	100	...	102
	99		
	102		
Delivery in next month	103	...	105
	103		
	107		
Delivery in month following	108	...	110
	107		

B. Delivery before delivery date.

(i)

1. A seller, when he needs cash, may wish to deliver the stock he has sold before delivery date.

2. In such case the Stock Exchange may pay to the seller of the stock by issuing a promissory note payable on the delivery date by the purchaser of the stock in question.

3. To request the Stock Exchange to pay the stock price to him, the seller must transfer the stock to the Stock Exchange.

4. Bankers will be quite willing to discount such P/N, regarding it as one of the most reliable papers in which they can invest, depending for its payment in the last analysis on the resources of the Stock Exchange.

(ii)

1. A buyer may wish to take delivery of stock he has bought also prior to the settlement date.

2. In such case the Stock Exchange will deliver same to the buyer provided of course that the Stock Exchange has already received the stock from the seller.

Note.—Advantages of Pre-dated Delivery System :

(a) The stock can be readily converted into funds.
(b) The funds can be readily converted into stock.
(c) A way is open for utilising available funds.

Change-Over in the Long-Term Transaction

Contracts made for different terms of delivery can be carried forward into a still later term of delivery.

For the purpose of carrying over the position, whether as a buyer or as a seller, the said position must first be converted and then must be converted once more.

A bargain is continued by the process of selling stock for the current month and buying it again for the next, or of buying it for the current month and selling it for the next, viz. by making "change-over" transactions.

In order to make a carry-over transaction it is necessary to pay the difference in the prices of sale and purchase.

The customer, in asking his broker to conduct a carry-over transaction, has to pay extra commission for each additional month. If half of the original deposit, due to a change in price, should be exhausted by more than half, it is usual to call for that amount of balance as future security.

Note.—Broker commission will be explained later.

(iii) *Short-Term Transactions*

The short-term market is for the stock to be delivered within a day.

Notes.—1. Accounting boundary for short-term transactions is from the afternoon market of the previous day to the morning market of the day itself. All commitments entered into within

this period must be concluded by 2 p.m. on the day either by making delivery of stock or by carrying over.

2. Short-term transactions, according to the Imperial Ordinance, are those which may be completed within seven days. The Tokyo Stock Exchange prescribes by law that these transactions should be completed within a day.

Methods of Trading in Short-Term Transactions

(a) The Stock Exchange Act prescribes that all transactions excepting "spot transactions" shall be conducted by means of auction.

(b) The short-term market as stock exchange transactions are therefore carried on also by means of auction.

(c) Methods of trading by auction for short-term transactions.

1. An exchange official (auctioneer) indicates a certain price for a particular stock.
2. The broker (=offering broker) who has stock for sale indicates the quantity he is ready to sell at that price.
3. Another broker (=bidding broker) indicates the quantity he is ready to take at that price.
4. The auctioneer tries to equalise demand and supply by indicating different prices.
5. If the supply is greater than the demand he lowers the price.
6. If the demand is greater than the supply he raises the price.
7. If by such auction demand and supply are equalised between brokers momentarily, deals are deemed to have been concluded.
8. An exchange official (recorder) keeps record of the *quantity* and *price* of stock, as well as of the names of brokers.

    Note.—In the case of preliminary deals in long-term transactions the recorder keeps note of the *quantity* and *names* of brokers.

9. The prices at which such contracts are entered into are the official prices.
10. Contracts entered into by official prices continue without intermission.

    Note.—In the case of long-term transactions there is only one official price in each session of the morning market or afternoon market.

(d) Special Feature of Short-Term Transactions.

1. The special feature of the short-term transaction is that deals may be made without intermission for one particular stock during a long duration from the opening session to the closing session.

2. Any time during the sessions one can buy or sell freely as prices are fluctuating continuously.

Note.—In the long-term market deals are concluded only for one price in every session auction, which lasts only for a very short time. If this transaction is missed, therefore, sale or purchase of stock cannot be made until the following day even though an urgent necessity either for sale or for purchase may arise during the day of transaction.

3. All contracts for short-term deals concluded within one accounting boundary (from the opening session of the afternoon market to the closing session of the morning market of the day itself) are adjusted to the last closing price, which is none other than the delivery price.

4. All commitments made during one accounting boundary must be concluded either by an actual delivery of stock at the delivery price or, in case of no real delivery being desired, by the payment of the balance between the contract price and the delivery price.

Note.—Transactions (other than spot dealings) in the Stock Exchange may be operated by those who have no intention of making an actual delivery. On the following day of settlement contracts are concluded without delivery if balance is paid through the change-over transaction.

5. The Imperial Ordinance prescribes that in the short-term transactions delivery date may be postponed within thirty days of the day of contract.

6. During the thirty days above referred to delivery may be carried over to the following day by adjusting the contract price to the delivery price every time.

7. On the thirtieth day delivery must be made if within the period the deals are not settled.

8. Within this period however :

(a) a buyer may demand delivery of stock at any time by paying the price ;

(b) a seller may demand the payment of price at any time by making delivery ;

(c) a buyer may not wish to or cannot take over the actual stock by paying the price ;

(d) a seller may not wish to or cannot make delivery of stock.

9. Because of the fact that a buyer may demand the delivery at any time and a seller may demand the payment at any time, the number of shares of stock for which delivery is desired does not always agree with the amount of payment for the stock to be delivered. When there is a deficit or a surplus in the quantity of the stock to be delivered or in the amount of payment to be made for the stock, a transaction cannot be carried on smoothly.

(iv) *Tokyo Stock Exchange Agent Operation Corporation*

1. Tokabu Dai-Ko Kwaisha (Tokyo Stock Exchange Agent Operation Corporation) was established whose function is to equalise the difference in the quantity of delivery and payment.

Note.—1. The Tokyo Stock Exchange Agent Operation Corporation was established in 1929 by the Short-Term Market Brokers Association with a capital of 10 million yen (of which 6 million yen was paid in) for the purpose of taking or making delivery of or paying price for stock bought or sold in the short-term market in the Tokyo Stock Exchange or of doing anything necessary to perform such functions.

2. The Tokyo Stock Exchange Agent Operation Corporation assumes a position similar to that of a trading member (broker) of the Stock Exchange. The Corporation is therefore often designated as a "special trading member."

3. The fund at the disposal of the Corporation is derived from its own capital and money borrowed outside through its strong credit standings.

2. Credit in Exchange Transactions.

(i) By means of the facilities offered by the Stock Exchange a speculator who has not sufficient funds to pay may buy stock in the expectation of seeing a rise in its price which will subsequently enable him to sell it at a profit.

(ii) By means of the facilities offered by the Stock Exchange a speculator who has no stock may sell it in the anticipation that its price will shortly decline so that he can buy it back at a lower price and thus can deliver it, obtaining a profit.

(iii) In the former case the buyer is allowed to defer the payment of money.

(iv) In the latter case the seller is allowed to defer the delivery of the stock.

(v) In the former case the buyer is given credit to defer the settlement of the deal.

Note.—That the buyer is allowed to defer taking delivery corresponds to saying that he is given credit; for the seller puts his trust in the buyer that the latter will without fail pay him later on.

(vi) In the latter case also the seller is given credit to defer the delivery of stock.

Notes.—1. That the seller is allowed to defer the delivery corresponds to saying that he is given credit; for the buyer puts his trust in the seller that the latter will not fail to make delivery of stock to him later on.

2. Such postponing of a transaction in its economic essentials corresponds to the ordinary merchandise transactions of " future delivery " which is nothing but a " credit operation."

(vii) The Stock Exchange deals being an exchange of money (payment) and stock (delivery) it is evident that credit must be involved in two ways—through a postponement either in the payment of money or in the delivery of stock.

3. Functions.

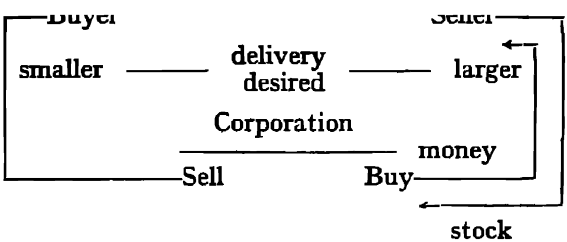
(a) One function of the Tokabu Dai-Ko Kwaisha (the Tokyo Stock Exchange Agent Operation Corporation) is to provide means by which such credit may be allowed to traders.

(b) Supposing the quantity of the seller's delivering stock is larger than what the buyer is willing to accept, the corporation makes two counter transactions of the purchase and the sale of the stock of surplus delivery.

Notes.—1. By this deal the seller completes his commitments, only the buyer remaining as the buyer (of the stock from the corporation) ; the buyer in this case carries over the contract.

2. By this deal the corporation buys the stock from the seller and pays him his price, taking over the said stock from him.

3.



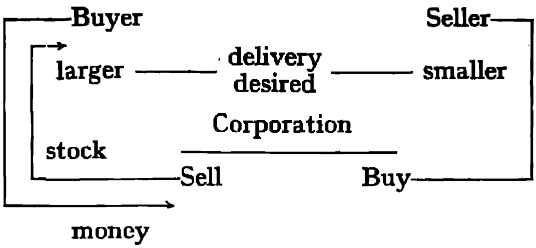
4. This is a case of the buyer's inability or unwillingness to take delivery of stock.

(c) Supposing the quantity of the buyer's accepting stock is larger than that of the seller's delivery stock the corporation makes two counter transactions of the purchase and the sale of the stock equal to the quantity of delivery deficit.

Notes.—1. By this deal the buyer completes his commitments, only the seller remaining in the transaction as the seller (of the stock to the corporation) ; the seller in this case carries over the contract.

2. By this deal the corporation sells the stock to the buyer and gives him the stock, and receives from him payment for same.

3.



4. This is a case of seller's inability or unwillingness to make delivery of stock.

(d) In the former case, as the buyer defers payment to a later day, the seller has to suffer loss of interest accruing on the money he would have received. The seller should be reimbursed for the amount of such loss. The payment made for such purpose is nothing more nor less than " interest."

(e) In the latter case, as the seller defers delivery of stock to a later day his position becomes fundamentally identical with the position of the sellers who borrow stock to make delivery. The seller must pay the interest in the form of rent for the stock borrowed.

(f) In the former case, as the seller's delivery stock is more than the buyer's accepting stock, the carry-over is paid by the buyer.

(g) In the latter case, as the seller's delivery stock is less than the buyer's accepting stock the carry-over rate is paid by the seller.

(h) Imagine the following deals :

(*a*) 10,000 shares of stock are bought and sold ;
(*b*) Buyers who wish to carry over expecting a rise in price are represented by 9,000 shares of stock ;
(*c*) Buyers who are willing to take delivery by 1,000 shares of stock ;
(*d*) Sellers who wish to carry over expecting a further decrease in price by 7,000 shares of stock ;
(*e*) Sellers who are ready to make delivery by 3,000 shares of stock :

Then

Buyer		Seller	
Carry over	9,000		7,000
Delivery	1,000		3,000
Delivery	2,000	Carry over	2,000
Carry over	9,000	Carry over	7,000
Delivery	1,000	Delivery	3,000
	2,000		

(i) If at the settlement there is a surplus in the quantity of delivery and yet the buyer does not express his intention of either taking delivery or deferring it, he is deemed to have desired to make a " carry-over."

(j) If at the settlement there is a deficit in the quantity of delivery and yet the seller does not express his intention of either making delivery or deferring it, he is deemed to have desired to make a " carry-over."

(k) By such rulings as mentioned in (i) and (j) it may be clearly inferred that the short-term market transaction in the Stock Exchange is based on the principle of " carrying over."

(v) *National Bonds Market*

(a) The morning session of this market opens at 9.30 a.m. and the afternoon session at 1 p.m. The listed securities can be bought for cash or margin, and for both short- or long-term delivery.

(b) Eligibility for the listing :

(1) Securities must have maturity of not less than three years.

(2) Outstanding amount must not be less than 50 million yen in the case of national bonds ; 15 million yen in the case of local bonds, and 10 million yen in the case of company debentures.

(3) National and local bonds may be listed by making report thereof to the Ministry concerned, while company debentures cannot be listed unless so permitted by the government.

(c) Trading method :

(1) Spot dealings : Spot dealings in the National Bonds Market are identical with the transactions described in the Spot Market of the Stock Exchange.

(2) Long-Term dealings : The methods are fundamentally identical with those of stock dealings in the Stock Exchange, excepting that in the former the consideration of interest is involved in the payment. Formerly bonds were quoted in the Stock Exchange with the stipulation of " and interest." Today, however, bonds sell " without interest," regulations having since been revised. Thus when a 1,000 yen 6 per cent. bond is quoted at 80 yen at any session of the National Bonds Market in the Stock Exchange, buyers are supposed to pay the " flat price," though actually they are required to pay " accrued interest " as well to the sellers.

Note.—Interest is calculated to the day on which the sales contract is made from the date of the last interest payment.

(vi) *Spot Market*

Dealings in the Spot Market may be made as (1) a bilateral contract, viz. as between two single buyers or (2) by "tender."

Spot transactions must be completed within two days: delivery may be made within fifteen days of the date of contract, but even before the due date the sellers may demand of the buyers payment of the price by making delivery of the bonds.

On spot dealings no margin is allowed.

Any number of shares up to any amount can be traded in the spot market, although in the other markets a unit of security transactions is fixed by law at ten shares for stocks and 1,000 yen for bonds.

(vii) *Guaranty: Margin: Fees*

Brokers pay to the *Stock Exchange*	Guaranty money	A
	Contract margin	B
	Fees	C
Customers pay to the *Broker*	Margin money	D
	Fees	E

A Brokers' guaranty money serves as a security against any loss he may cause to the Stock Exchange.

B Brokers' contract margin secures the performance of the contract made.

C Fees paid to the Stock Exchange from brokers constitute the principal income of the former. The payment of the fees (c) is amply justified as:

1. The Stock Exchange provides the brokers with the use of the floor on which they carry on their operations.
2. The Stock Exchange undertakes the duties of book-keeping and other necessary proceedings to help consummate the contract.
3. The Stock Exchange offers a guaranty to the full extent of the property it owns as a limited joint-stock company against all losses arising from failure on the part of its brokers to carry out any contract made.

D On long-term deals minimum margin money is fixed by the Stock Exchange.

The margin money may be increased at any time without the permission of the Exchange officials, and is often as much as 40 to 50 per cent. of the market value of the stock.

E Customers' fees constitute the income to brokers.

V. THE STOCK EXCHANGE AND ITS FUNCTIONS

1. *Negotiability*

Should you wish to sell your 100 shares of N.Y.K. or any other stock listed on the Stock Exchange, you can do so instantly and without effort or exertion on your part, for the stock market on the Tokyo Stock Exchange is already organised and is ready at all times instantly to absorb your buying or selling orders. This quality of instant negotiability of securities has the practical result of considerably enhancing their present and actual worth in yen and sen to sellers in need.

2. *Collateral Value*

A second service performed by the exchanges is that of rendering their listed securities desirable collateral for loans at the banks. Unlisted securities are often sharply discriminated against by bankers in making loans on collateral, not from any inherent defects in the securities themselves nor in the companies behind them, but solely because, not being listed, they cannot be sold instantly, and a distinct chance is consequently involved of the lender suffering a loss.

3. *Establishment of Fairest Prices*

The exchanges also permit the fairest possible prices to be made for the securities or commodities listed for trading upon them.

Whenever the price of a stock temporarily deviates from its intrinsic value, an opportunity for a profit is at once afforded to thousands of keen and experienced speculators, who are not slow to seize it. If the price is below the value, they buy " for the rise " ; while if the price is above the value, they sell " for the decline." As a result of this speculative buying or selling, the inaccurate price is speedily driven back to conform with the inherent value of the security.

4. *Services to Investors*

The exchanges perform a further economic service by stabilising the processes of consumption or investment. Nevertheless, the consumer and the investor alike derive great benefit from organised markets through the prevention of fraudulent goods or fraudulent dealings, the continual negotiability and collateral value of the goods, and the fair prices made for them there.

5. *A Source of Capital*

Another signal service rendered by the exchanges consists in stimulating the flow of large amounts of capital into industry. Walter Bagehot, in a celebrated passage, declared that :

"A million in the hands of a single banker is a great power; he can at once loan it where he will, and borrowers can come to him, because they know or believe that he has it. But the same sum scattered in 10s. and 50s. through a whole nation has no power at all; no one knows where to find it or whom to ask for it."

What is true of the bank is also true, though in a slightly different way, of the Stock Exchange, which, being our leading organised security market, collects the funds of individual investors and speculators from all over the nation, and even at times from other countries, and directs their flow into the productive industry of any nation.

6. *A Business Barometer*

The Stock Exchange serves as a barometer of future business conditions. Prices on the Exchange, owing largely to speculative forces in the market, tend to discount future changes in security values, which of course quite accurately reflect the current business situation.

There is a rapidly growing class of business men who, although they rarely if ever speculate in securities, nevertheless follow the trend of stock prices closely as an index to future conditions in trade and industry.

THE BANK OF JAPAN

ANNUAL REPORT FOR THE YEAR 1936

Presented to the General Meeting of the Shareholders on February 20, 1937

ADDRESS OF GOVERNOR IKEDA

AT THE

GENERAL MEETING OF THE SHAREHOLDERS

ON

FEBRUARY 20TH, 1937

GENTLEMEN :—In presenting to you the Annual Report of the Bank for the year 1936, I wish to submit for your consideration a few remarks on the general economic conditions of the country during the period and on the more important phases of the Bank's operations.

During the early months of the past year, owing to the shock received from the February Incident, business was in an inactive state for a period following the occurrence, but with the settlement of the disturbance and the return of political stability through the formation of a new Government, economic activity increased by degrees. Thenceforward, stimulated by the gradual acceleration of the cheap money trend, the prosecution of the defence rearmament programme, and by a betterment in business conditions in foreign countries, trade and industry made a fairly marked expansion, notwithstanding apprehensions over possible repercussions, particularly of the tax-reform problem. Co-operation among manufacturers in the principal industries was more in evidence, a high level of productive activity was maintained and the position of these industries continued to improve. In fact, some of the heavy industries found their productive capacity inadequate for the demand made upon it. In many industries, establishment of new factories and extension of plants were undertaken. The trend of commodity prices turned upwards, owing to the increased demand for goods and the advance abroad in the prices of the staple items of merchandise. Purchasing power among the agrarian population was enhanced, particularly with the heavy crop of rice, which rose in price, as did also wheat, cocoons and other staple farm products. Reflecting this,

commercial transactions increased markedly and the movement of goods was very brisk. The share market, which remained depressed even long after the political situation had settled down, began to show more activity, helped by low money rates and the prosperous condition of industries. Both exports and imports registered further increases compared with 1935, and, though the balance of merchandise trade was adverse to this country, owing to a greater increase in imports, the foreign exchanges were on the whole kept stable throughout the entire year, supported mainly by the improvement in the country's position in invisible trade. In the money market, the acceleration of the downward movement of money rates during and after the spring months imparted a strong impetus to security investments, and created an increasing demand for industrial funds, with a consequent brisk movement of money.

The foreign trade of the country during the past year generally continued to expand. Although exports showed a slight decline in the rate of expansion, nevertheless, compared with the preceding year, there was a gain in value of 7·4 per cent., with the total amount reaching 2,797 million yen. Imports, on the other hand, stimulated by the increased activity in the manufacturing industries and the rise in foreign prices, made a greater expansion, and the total amount of 2,928 million yen was a gain of 11·8 per cent. over the corresponding figure for 1935, resulting in an import surplus of 130 million yen. Of the principal articles of export, while important items like cotton and silk fabrics decreased, rayon tissues, woollen fabrics and articles in the miscellaneous group continued to make advances. The geographical distribution of our export trade shows that, while losses occurred in the trade with British India, Netherlands India, Australia and Egypt, as a result of the obstacles in the way of international commerce, the trade with Manchoukuo, Kwantung Province, Great Britain, the United States and South Africa registered gains. With respect to trade with Australia, although it was found necessary at one time to resort to the application by this country of the Law concerning the Safeguarding of Commerce, towards the close of the year a trade agreement on the basis of reciprocity was concluded with that country. On the side of imports, rubber, sulphate of ammonia, crude and heavy oils, with raw cotton and wool in the lead, increased heavily in value, owing to the advance in prices and the growth in volume.

The foreign exchange market sustained a fairly severe shock from the outburst of the February Incident, but the exchange rates were affected only slightly, thanks to the operation of the Foreign Exchange Control Law. Although the market has since, at times, developed a weakness, reflecting the rising trend of the import surplus, the rate on London was maintained mostly at 1s. 2d. The exchange on New York was subject to minor fluctuations, mainly in sympathy with the erratic movement of the sterling-dollar rate occasioned by the weakness of the gold currencies. The range of

fluctuations, with a high of $29½ and a low of $28½, was, however, considerably narrower than in the previous year. With a view to rendering the operation of the Foreign Exchange Control Law more effective, the Government made an amendment, coming into force on December 1, in the Ordinance of the Finance Ministry issued under the said Law.

The condition of the money market early in 1936 was one of continued ease. Supplies of funds in the market were plentiful, and the sales of government bonds out of the Bank's holdings rose to a considerable amount. The outbreak of the February Incident, however, induced the banks to strengthen their cash position, to be provided for any emergency, bringing about at one time a substantial expansion in advances of this Bank. Fortunately, no particular disturbance occurred in the money market. A new Government was soon formed and a pronouncement was made concerning, among other things, the prosecution of a cheap money policy. This gave rise to strong expectations of further lowering of the level of money rates, causing applications for purchase of government bonds in the Bank's holding to increase markedly. The loanable funds in the market diminished, in consequence, and short loan rates tended to harden. The Bank took cognisance of the fact that, while it was no doubt desirable to see government bonds readily absorbed, yet meeting freely the demand for them in the circumstances was fraught with danger, not only of impeding a smooth working of the cheap money process, but of creating an unnecessary disturbance in the money market and of leading to an upward turn of money rates, quite contrary to the actual trend of things. Accordingly, the Bank suspended temporarily, from April 4, further sales of 4 per cent. Exchequer Notes in its holding, and on the 7th lowered its official rates by 0·1 sen, the discount rate on commercial bills being fixed at 0·9 sen per diem. In the meantime, the Government formed a plan of converting 5 per cent. Exchequer Notes to 3½ per cent. and, by an adjustment in the maturity date of the new issues, gave an indication of the proper level of rates of interest. On April 10 the associated banks in Tokyo and Osaka, also, made a reduction of their rates of interest on deposits, the rate on fixed deposits with the A-Class banks being lowered by 0·4 per cent. to 3·3 per cent. p.a., and in line with it the rates of interest on loans were reduced. The banks in the different parts of the country in succession, likewise, reduced their rates of interest. In pursuance of its plan referred to above, the Government completed, between May 1 and September 15, the conversion of 2,136 million yen of 5 per cent. Exchequer Notes to a lower rate of interest, and on September 22 a new issue of bonds was placed and taken up by this Bank, virtually on the same terms as the conversion issues above mentioned. Simultaneously with this, the Bank resumed sales of government bonds out of its holdings. Meanwhile, conversion of corporate debentures to lower rates of interest and new issues were made in large amounts and

their yields also declined. The publication of the tax-reform plan late in September, however, rendered the outlook over investment yields quite uncertain, and negotiations for capital issues all but ceased. On the other hand, capital increases and calls for payment by industrial companies followed one another and bankers' loans increased substantially. Although deposits at the banks continued to grow, the increase was in a lesser degree than in the previous year. Post Office savings, on the other hand, showed a marked increase and this, together with the practice of the banks of curtailing the amount of their cash holdings, brought about a hardening tendency in short money. Having regard to this state of the money market, the Government made after October considerable disbursements of funds mostly of the Treasury Deposit Bureau, and this Bank also endeavoured to facilitate the flow of credits, with the result that the short loan situation was materially eased. Further disbursements of Treasury funds following the issuance in the latter part of December of a government loan amounting to 250 million yen, taken up by this Bank and the Treasury Deposit Bureau, helped the money market to tide over the turn of the year quite easily, notwithstanding the heavy end-of-the-year requirements.

Turning to a consideration of the Bank's business, our loans and discounts, other than Advances to Government, showed, compared with 1935, an increase, in monthly averages, in most of the first six months, while the second half-year saw decreases due to declines in advances on foreign bills. The amount outstanding on December 31 at 744 million yen was a decrease of 97 million yen compared with the corresponding figure a year ago. Of this, 472 million yen represented the discounts made under the Indemnity Act of 1927, the total amount repaid on the said discounts during the past year being 25 million yen. Advances to Government increased by 68 million yen during the past year in consequence of the gold purchases made under the Law Concerning Purchase of Gold, and the outstanding amount on December 31 stood at 164 million yen, exclusive of advances made under Article 2 of the Convertible Bank Note Regulations. The gold reserve saw an addition during 1936 of 44 million yen, which brought up the total reserve at the end of the year to 548 million yen. Of the deposits with the Bank, Government current deposits were on the whole lower than in the previous year, the monthly average ranging between 92 million and 420 million yen. The private deposits showed a monthly average of 73 million yen, which was slightly lower than in 1935. The holdings of government loans, including Rice Purchase Notes, stood at the end of the year at 829 million yen, being 99 million yen higher than the corresponding figure a year before. The Bank-note issue registered an average for the year of 1,340 million yen, or an increase of 92 million yen over the previous year. The circulation on December 31 was 1,865 million yen, which is 99 million yen higher than in the same period of 1935, and was the largest on December 30 when it rose to

1,965 million yen, being an increase of 127 million yen over the highest figure of 1935.

The amount of Government loans issued during the past year, excluding Treasury Bills and Rice Purchase Notes, totalled 3,095 million yen, against repayments of 2,281 million yen, or a net increase in the national debt of 814 million yen. Of these issues, 2,248 million yen represents conversion issues and 847 million yen new issues. Of this total, again, 1,643 million yen was subscribed for by the Bank, 120 million yen by the Treasury Deposit Bureau, and 1,296 million yen by the general public, the remainder representing the bonds delivered for the purchase of or in indemnification to private railways and tramways, in payment of the grants made in connection with the Manchurian Affair, and for other purposes. Of the amount repaid, 2,219 million yen was redeemed through conversion, and the remainder represented cancellation by means of the Sinking Fund. The sales of government bonds by this Bank out of its holdings during the past year amounted to 1,528 million yen.

A glance over developments abroad. The political unsettlement in Europe, which was further intensified by happenings like the German reoccupation of the demilitarised zone in the Rhineland, the question of sanctions against Italy in connection with the Abyssinian Affair and the revolution in Spain, and the involved interests of the Powers *vis à vis* China, combined to create a tension in international relations. The course of events served as a stimulus to rearmament in the principal countries of the world, and this, together with the continued practice of unemployment relief and other measures for combating the depression, caused economic activity in these countries to increase gradually. Influenced also by the advance in the value of farm products, commodity prices tended upwards, and the business and financial situation on the whole gave signs of improvement. Particularly marked was the spread of recovery in Great Britain and the United States. In France, unemployment relief and rearmament caused the Budget deficits to rise further, and uncertainties in the internal political situation led to a flight of capital, which resulted in a sharp increase in the outflow of gold. In the circumstances, France was forced, on September 25, to abandon the gold standard, which she had staunchly maintained so long, and decided upon a devaluation of the franc. Switzerland, the Netherlands and other countries followed suit by departing from the gold standard. At this juncture, the governments of the United States, Great Britain and France concluded a currency agreement and a gold transfer agreement, to which, subsequently, Belgium, Switzerland and the Netherlands declared adherence. Notwithstanding the concerted efforts thus made, following the readjustment of the French franc, for exchange stabilisation, international exchange has not yet been quite stabilised. And in spite of an earnest desire expressed on all hands for recovery in international commerce, barriers in the way of international trade are far from being removed. In China, although

the internal political situation was still in an unsettled state, the agreement on silver entered into with the United States in May and the revision in the regulations relative to reserves against the note issue brought the monetary reform of the previous year to a consummation, which largely contributed to the stabilisation of the external value of the currency. With a rich harvest of farm products on top of this, the business and financial conditions in that country have gradually shown signs of improvement. Manchoukuo concluded in June a trade agreement with Germany and, as the result, the exports of the staple products of Manchuria were much facilitated. A substantial progress has been made in the currency and financial reorganisation, and her financial and commercial relationship with this country has been made much closer.

The year under review saw an accentuation of the downward trend of money rates, which accompanied a further reduction of the burdens of interest charges on industrialists and a marked expansion in the volume of production. The money market remained quiet throughout the year. Yet, nevertheless, the rate of increase in deposits at the banks appreciably slowed down, and the upward turn of commodity prices has been somewhat too sharp. There is, thus, discernible in the prevailing order of things something different from the experiences of recent years and, besides, developments in the international sphere, both political and economic, present an increasingly complicated aspect. In such a state of affairs, it is incumbent on bankers and financiers at large to endeavour to put the financial structure on a sound basis, to aid in the accumulation of capital resources and to see to it that the funds are properly employed, thereby furthering the economic development of the nation.

In accordance with these principles, this Bank will continue its efforts to facilitate the flow of credits and regulate the supply of currency; to uphold confidence in the currency; and to contribute to the carrying out of the national policies and to the promotion of national prosperity.

Speaking for myself, I was appointed this month to the Governorship of this Bank. Conscious of the great responsibility of the office, I shall endeavour to do my utmost in the discharge of my duties.

Before closing this address, I wish to express deep regret for the loss to the Bank of the services of Mr. Eigo Fukai on his resignation as Governor. Appointed a director in April 1918 and Vice-Governor in June 1928, which latter post he held until his appointment to the Governorship in June 1935, Mr. Fukai's devotion to the Bank in the fulfilment of its mission through many an important year in the economic and financial history of the nation will long be gratefully remembered by us all. I wish also to express our sincere appreciation to Mr. Ken-ichiro Shimidzu, who has resigned the Vice-Governorship, for meritorious services to the Bank in the discharge of his duties as a director since August 1929, and as Vice-Governor since June 1935, and to Mr. Tetsusaburo Tanaka, a former director, for his valuable services to the Bank during his tenure of office.

TOTAL OPERATIONS

	Yen
Receipts	163,251,817,002·63
Payments	163,251,908,875·37
Total	326,503,725,878·00

There was an increase of Yen 45,561,743,122·69 as compared with the total operations of the preceding year.

CASH TRANSACTIONS

	Yen	Compared with 1935 Yen
Receipts	14,170,826,833·83	+ 1,480,338,967·17
Payments	14,170,918,706·58	+ 1,481,765,165·73

The balance of cash on hand at the end of the year was Yen 259,233,512·67 made up of the following items:

	Yen
Gold Coin	230,426,169·00
Silver Coin	13,165,012·50
Nickel Coin	14,310,977·55
Copper Coin	1,331,353·62

BANK NOTES

TOTAL ISSUES AND WITHDRAWALS

	Yen	Compared with 1935 Yen
Total Issues	6,237,474,940·00	+ 634,742,812·00
Total Withdrawals ...	6,138,326,850·50	+ 674,800,849·00

VARIATION IN CIRCULATION

	Yen
Maximum (December 30)	1,965,190,333·50
Minimum (May 19)	1,185,042,938·00
Average for the year	1,340,458,705·00

The average circulation was Yen 92,903,633·00 greater than that of the preceding year.

Excess issues under Article 2 Paragraph 3 of the Convertible Bank Note Regulations* were made on twenty-one days. The maximum excess issue was Yen 416,847,878·50 on December 30.

* The Bank of Japan may issue its bank notes to any amount against specie reserve of gold and silver, provided that the value of silver shall not exceed one-fourth of the total. The Bank is also authorised to make fiduciary issues against Government bonds or other specified securities up to Yen 1,000 million. An additional fiduciary issue over and above this limit may be made, provided, however, that in case such an excess issue is to continue beyond fifteen days the Bank shall obtain the approval of the Minister of Finance therefor, and that it shall pay a tax on the same as from the sixteenth day at a rate not less than 3 per cent. per annum.

Gold Coin Received and Paid in Exchange for Bank Notes

	Yen
Gold Coin received	555·00
Gold Coin paid	—
Excess of the receipts	555·00

Bank Notes Issued, Specie Reserve, and Securities held against Note Issues, December 31, 1936

	Yen	Yen
Notes issued		1,865,703,384·50
Specie Reserve :		
Gold Coin and Bullion		548,342,455·00
Securities :		
Government Bonds ...	704,399,642·50	
Government Securities	181,854,095·25	
Bills and Notes ...	247,282,260·18	
Other Securities ...	183,824,931·57	
		1,317,360,929·50
Total		1,865,703,384·50

These figures indicate an increase of Yen 44,277,340 in the Specie Reserve and of Yen 54,870,749·50 in the Securities held as compared with the corresponding figures on December 31, 1935.

Bank notes to the amount of Yen 671,140,000 were printed during the year, while those cancelled and destroyed amounted to Yen 564,269,774.

GOVERNMENT DEPOSITS AND FUNDS

(1) Government Deposits :

	Yen		Compared with 1935 Yen
Receipts	39,810,706,129·89	+	8,991,344,765·83
Withdrawals ...	39,874,619,248·41	+	9,103,939,231·48
Balance on Dec. 31, 1936	215,895,809·41	—	63,913,118·52

Of the balance of Government Deposits at the end of the year, Yen 105,220,796·53 was in the form of the Current Account.

(2) Redemption Funds for the Fractional Government Notes :

	Yen
Amount deposited	—
Amount repaid	50,000·00
Balance on Dec. 31, 1936	10,990,000·00

(3) Funds for the Payment of Mint Certificate :

Under this heading no transactions were made during the year, the amount outstanding on December 31, 1936, being Yen 870,892·70.

CURRENT ACCOUNTS

	Yen		Compared with 1935 Yen
Receipts	70,094,859,897·37	+	7,844,188,519·43
Withdrawals ...	70,078,078,623·05	+	7,835,604,847·11
Deposits, Dec. 31, 1936	128,779,612·42	+	16,211,693·46
Advances outstanding Dec. 31, 1936 ...	—	—	569,580·86

RATES OF INTEREST ON CURRENT ACCOUNT ADVANCES

(Per diem per 100 yen)

Jan. 1—April 6	1·4 sen (5·11% p.a.)
April 7—Dec. 31	1·3 sen (4·75% p.a.)

There were 339 customers with current accounts at the end of the year, of whom 145 were granted credit to obtain advances on their accounts to the total maximum limit of Yen 13,160,000.

DISCOUNTS

	Number		Yen
Bills discounted, general ...	2,020		2,112,858,526·90
Bills discounted, Law No. 55 of 1927*	554		2,628,823,834·00
Total Discounts, 1936	2,574		4,741,682,360·90
Compared with 1935 ...	+1,267	+	370,976,480·66

The amount of discounted bills other than those discounted under Law No. 55 of 1927 outstanding at the end of the year was

* Law No. 55 of 1927 authorised the Bank of Japan to make, with a view to financial stabilisation, what is termed "special advances" to any bank requiring funds for meeting the withdrawals of deposits, within one-year period beginning May 9, 1927, through the discounting of bills secured by such collaterals and upon such terms as may be stipulated by the Minister of Finance, in spite of the Bank's usages, the Government undertaking to indemnify the Bank for any loss that might be incurred up to but not exceeding Yen 500 million. Such discounted bills were made renewable at the Bank for ten years at most from said date, which period was extended to twenty years, so as to terminate on May 8, 1947. by Law No. 8 of 1936.

Yen 113,148,463·33, and that of the last named Yen 472,479,789·55, showing a decrease of Yen 49,764,115·02 and Yen 25,696,354·03 respectively, as compared with the corresponding figures for 1935.

DISCOUNT RATES

(Per diem per 100 yen)

	Commercial Bills	Bills with Government Bonds as Collateral	Other Collateral Bills
		(Minimum)	(Minimum)
Jan. 1–April 6	1·0 sen (3·65% p.a.)	1·1 sen (4·02% p.a.)	1·2 sen (4·38% p.a.)
April 7–Dec. 31	0·9 sen (3·29% p.a.)	1·0 sen (3·65% p.a.)	1·1 sen (4·02% p.a.)

LOANS AND DEPOSITS WITH BANKS

(1) Advances to the Government:

	Yen	Compared with 1935 Yen
Advances	68,342,291·02 +	18,664,192·36
Repayments ...	23,617·89 +	23,617·89
Balance on Dec. 31, 1936	186,442,257·41 +	68,318,673·13

Included in this balance of advances at the end of the year is a loan of Yen 22,000,000 made under the provisions of Article 2 Paragraph 5 of the Convertible Bank Note Regulations, while Yen 161,517,501·16 represents the obligation assumed by the Government in accordance with Article 4 of the Law Concerning Purchase of Gold by the Bank of Japan.*

(2) General Loans:

Under this heading no transactions were made during the year, and there were no loans outstanding on December 31, 1936.

* The Bank of Japan is required by Law No. 44 of 1934 to purchase gold from designated producers at such a price as may from time to time be fixed by the Bank with the approval of the Minister of Finance, and apply the gold so purchased to the reserve against its bank notes. As for the difference between the price actually paid for such gold and its coinage value at which it is held by the Bank, the Government assumes by way of compensation an obligation to the Bank for an equivalent sum. Any gain that might arise in respect of such gold shall revert to the Treasury.

RATES OF INTEREST ON LOANS

(Per diem per 100 yen)

	On Government Bonds	On Other Securities
	(Minimum)	(Minimum)
Jan. 1–April 6	1·1 sen (4·02% p.a.)	1·2 sen (4·38% p.a.)
April 7–Dec. 31	1·0 sen (3·65% p.a.)	1·1 sen (4·02% p.a.)

(3) Advances on Foreign Bills :

	Yen		Compared with 1935 Yen
Advances	1,220,199,409·45	+	27,064,695·38
Repayments	1,241,934,787·79	+	64,662,096·51
Balance on Dec. 31, 1936	159,124,931·57	—	21,735,378·34

(4) Deposits with Other Banks :

	Yen		Compared with 1935 Yen
Amount deposited ...	51,366,000·00	+	26,826,000·00
Amount withdrawn ...	53,843,960·00	+	36,581,890·00
Balance on Dec. 31, 1936	31,698,672·60	—	2,477,960·00

GOVERNMENT BONDS

	Yen		Compared with 1935 Yen
Amount acquired	2,939,087,402·34	+	1,129,073,943·36
Amount parted with	2,839,283,128·86	+	1,111,241,287·00

GOVERNMENT BONDS HELD, DECEMBER 31, 1936

	Yen
Imperial 5% Loan Bonds	26,247,271·27
5% Loan Bonds (Kō)	7,127,025·15
Imperial 4% Loan Bonds	2,094,825·65
4½% Exchequer Notes	11,862,214·00
4% Exchequer Notes	220,985,227·37
3½% Exchequer Notes	275,065,530·39
Government Rice Purchase Notes	283,110,986·13
6½% Gold Bonds of 1924 (Dollar)	1,502,880·53
Emprunt 4% de 1910	1,077,072·89
Total	829,073,033·38

The holdings on December 31, 1936, show an increase of Yen 99,804,273·48 in comparison with those on the same day the preceding year.

BULLION

	Yen		Compared with 1935 Yen
Amount acquired	44,289,874·97	+	6,562,576·70
Amount parted with	16,149·46	+	13,768·66

The amount acquired represents gold bullion purchased under the Law Concerning Purchase of Gold by the Bank of Japan.

Bullion on Hand, December 31, 1936

	Yen	Yen
Gold :		
Foreign Gold Coin ...	25,348,805·85	
Gold Bars	290,557,769·10	
Gold contained in mixed Gold and Silver Bars ...	425,837·05	
Gold contained in old Coin	1,584,850·87	
		317,917,262·87
Silver :		
Silver contained in mixed Gold and Silver Bars ...	223·63	
Silver contained in old Coin	14,320·67	
		14,544·30
Total		317,931,807·17

The above amount of bullion on hand on December 31, 1936, shows an increase of Yen 44,273,725·51, as compared with that on the same day the preceding year.

DEPOSITS WITH AGENCIES

(1) Deposits with the Agencies :

	Yen		Compared with 1935 Yen
Amount deposited ...	7,090,975,604·67	+	693,570,176·76
Amount withdrawn ...	7,092,547,101·70	+	693,941,157·83
Outstanding Dec. 31, 1936	26,353,835·67	—	1,571,497·03

(2) Specified Deposits with the Agencies :

	Yen		Compared with 1935 Yen
Amount deposited ...	35,610,918·15	+	5,246,111·85
Amount withdrawn ...	37,606,382·88	+	8,950,683·67
Outstanding Dec. 31, 1936	7,217,932·31	—	1,995,464·73

(3) Deposits with the Foreign Agencies:

	Yen		Compared with 1935 Yen
Amount deposited ...	470,291,369·48	−	202,085,450·52
Amount withdrawn ...	530,771,706·40		83,344,671·57
Outstanding Dec. 31, 1936	51,023,421·60	−	60,480,336·92

TRANSACTIONS WITH CORRESPONDENTS

	Yen		Compared with 1935 Yen
Receipts	95,229,368·05	+	22,759,501·80
Payments	95,283,299·61	+	22,970,731·95
Balances due to Bank, Dec. 31, 1936			
Balances due to Correspondents, Dec. 31, 1936	214,824·12		53,931·56

The rate of interest charged on the balances due to the Bank was the same as that on advances on current accounts.

The Bank had twenty-two Correspondents at the end of the year, who had agreements with the Bank allowing them credit to draw up to the total maximum limit of Yen 246,000.

TRANSFERS

Transfers by Draft or Otherwise Between the Bank Offices and Between the Bank and its Correspondents

	RECEIPTS		PAYMENTS	
	Number	Amount Yen	Number	Amount Yen
	24,728	8,311,978,751·27	25,374	8,410,854,592·32
Compared with 1935	+1,141	+481,313,012·90	+1,114	+509,306,530·18

TREASURY FUNDS AND GOVERNMENT SECURITIES

Treasury Funds:

	Yen		Compared with 1935 Yen
Receipts	38,504,577,878·73	+	9,045,376,475·58
Payments	38,573,435,720·04	+	9,167,765,000·38

Securities Held on Government Account

	Yen
Amount Deposited	1,736,675,846·01
Amount Withdrawn	1,396,365,465·85
Balance on Dec. 31, 1936	5,113,994,387·35

GOVERNMENT SECURITIES ISSUED AND REDEEMED THROUGH THE BANK DURING THE YEAR

Issues:	Yen
Imperial 5% Loan Bonds	12,100·00
Imperial 4% Loan Bonds	8,599,525·00
Imperial 3½% Loan Bonds ..	27,662,275·00
4% Exchequer Notes	406,835,950·00
3½% Exchequer Notes	2,652,590,000·00
Treasury Bills	80,000,000·00
Government Rice Purchase Notes	1,429,069,049·18
Total	4,604,768,899·18

Redemptions:	Yen
Imperial 5% Loan Bonds	185,250·00
Special 5% Loan Bonds	4,147,050·00
5% Loan Bonds (Kō)	6,600·00
Imperial 4% Loan Bonds (First Series) ...	640,850·00
Imperial 4% Loan Bonds (Second Series)	12,400·00
Imperial 4% Loan Bonds	2,100·00
5% Exchequer Notes	2,224,483,800·00
4% Exchequer Notes	300·00
Railway Bonds	200·00
Treasury Bills	80,000,000·00
Government Rice Purchase Notes ...	1,434,101,627·67
4% Sterling Loan Bonds of 1899 (First Series)	£50
4% Sterling Loan Bonds of 1905 (Second Series)	£4,040
4% Sterling Loan Bonds of 1910 (Third Series)	£100
4½% Sterling Loan Bonds of 1905 (First Series)	£200
4½% Sterling Loan Bonds of 1905 (Second Series)	£240
5% Sterling Loan Bonds of 1907	£40
5½% Sterling Loan Bonds of 1930 ...	£202,110
6% Sterling Loan Bonds of 1924	£443,765
5½% Gold Bonds of 1930 (Dollar) ...	$1,244,000
6½% Gold Bonds of 1924 (Dollar) ...	$3,064,800
Emprunt 4% de 1910	Fr. 7,500
South Manchuria Railway Co. Sterling Loan Bonds	£3,558,060
Total	Yen 3,743,580,177·67 £4,208,605 $4,308,800 Fr. 7,500

The amount of interest paid on government securities during the year was Yen 440,704,302·78.

SAFE CUSTODY

During the year 649 parcels were received for custody and 962 parcels were withdrawn. There were 189 sealed and 427 open parcels on deposit at the end of the year.

CONTENTS OF OPEN PARCELS IN CUSTODY OF THE BANK, DECEMBER 31, 1936

	Yen
Government Bonds	156,683,025·00
Municipal Bonds	77,962,510·00
Share Certificates	185,842,972·50
Debentures	91,641,890·00
Foreign Government Securities	8,845,200·00
Other Securities	54,483·29
Total	521,030,080·79

PROFIT AND LOSS ACCOUNT AND DIVIDENDS

	First half-year Yen	Seond half-year Yen
Profit	36,601,200·21	21,786,953·97
Loss	21,098,908·91	14,938,969·36
Net Profit	15,502,291·30	6,847,984·61

Dividends for both the semi-annual periods of 1936 are at the rate of 10 per cent. per annum as in the preceding year.

The Payments to the Government under the Law No. 10 of June 17, 1932, out of the net profit for the year amount to Yen 14,984,291·84.

CAPITAL AND RESERVE FUND

During the year 1936 there was no alteration in the Bank's Capital of Yen 60,000,000, of which Yen 15,000,000 is uncalled.

The Reserve Fund amounting to Yen 114,590,000 at the settlement of the accounts for the second half of the preceding year is increased to Yen 115,690,000 by the allocation of Yen 1,100,000 for the year. The fund represents 257 per cent. of the Paid-up Capital of the Bank.

BANK PREMISES

The value of office grounds and buildings owned by the Bank increased by Yen 583,281·61 from Yen 16,249,637·99 on December 31, 1935, to Yen 16,832,919·60 at the end of the year.

SHARES

Transfers of Shares

Total Transfers of Shares :

	Number
Old Shares (Yen 200 paid up)	5,807
New Shares (Yen 100 paid up)	8,127
Total	13,934

Transfers by Sale :

	Number	Average Price Yen	Compared with 1935 Yen
Old Shares	4,195	550·90	+ 31·06
New Shares	6,447	388·35	+ 31·89

The number of shareholders decreased by 61 to 2,472 during the year.

BRANCHES AND AGENCIES

There was no change in the number and location of the branches. The seventeen Branch Offices are situated at Osaka, Moji, Nagoya, Otaru, Kyoto, Fukushima, Hiroshima, Hakodate, Kanazawa, Niigata, Matsumoto, Kumamoto, Akita, Matsuye, Okayama, Kobe and Matsuyama. There is besides an auxiliary office at Kagoshima.

The Bank also maintained 522 agencies for handling Government money and for the management of Government Bonds, and two Agencies for dealing with spoiled Bank Notes.

OFFICERS AND STAFF

Governor	1
Vice-Governor	1
Directors	4
Auditors	5
Chiefs of Departments	11
Superintendents of Agencies ...	2
Managers of Branches	17
Private Secretary	1
Inspectors	4
Secretaries	34
Clerks	1,152
Junior Clerks	217
Total	1,449

During the year there was a loss to the service of the Bank of thirty-seven persons through death, or retirement on account of

superannuation or other causes, while fifty persons were added to the staff in the same period.

Gratuities were granted to families of the deceased and to those retired members who had faithfully discharged their duties while in service.

The above is a statement of the operations of the Bank during the year 1936.

SEIHIN IKEDA, Governor.
JUICHI TSUSHIMA, Vice-Governor.
SEIGO YAMANOUCHI, Director.
MOTOYOSHI TSUKASAKI, Director.
YOSHIWO HIRASE, Director.
TETSUZO HORIKOSHI, Director.

February 12, 1937.

The undersigned hereby certify that the operations of the Bank during the year 1936, as described in the above Report, were carried on in accordance with the By-laws of the Bank.

As a result of periodical examinations of the books, cash and securities of the Bank they further testify to the correctness of the statements made in the present Report.

TEISABURO SEKIYA, Auditor.
SAKUNOSUKE IMAKITA, Auditor.
ITSUO HAMAOKA, Auditor.
NAONOSUKE KAWAKAMI, Auditor.
VISCOUNT NOBUMITSU AOKI, Auditor.

February 15, 1937.

BALANCE SHEET

LIABILITIES

	Yen	Yen
Notes issued		1,490,781,157·50
Redemption fund for Fractional Government Notes		11,040,000·00
Government deposits :		
Current Account	107,261,479·97	
Other	137,590,874·35	
		244,852,354·32
Funds for payment of Mint certificates ...		870,892·70
Current Accounts		109,157,574·31
Remittances		4,029,809·74
Due to other banks		317,722·32
Suspense receipts		71,077,438·22
Reserve for sundry expenditures		16,654,000·00
Reserve for settlement of account *re* Bills discounted, Law No. 55 of 1927 ...		3,064,000·00
Capital subscribed		60,000,000·00
Reserve fund		114,590,000·00
Dividends unpaid		3,721·48
Profit brought forward from last half-year		12,343,518·55
Net profit for the current half-year ...		15,502,291·30
Total		2,154,284,480·44

PROFIT AND LOSS ACCOUNT FOR THE

Dr.	Yen	Yen
To Expenses, taxes, interest, etc.		21,098,908·91
To Balance appropriated :		
Dividend at the rate of 10 per cent. per annum	2,250,000·00	
Reserve fund	800,000·00	
Payments to the Government ...	11,089,092·14	
Bonus and allowances	240,000·00	
Reserve for settlement of account *re* Bills discounted, Law No. 55 of 1927	514,000·00	
Balance carried forward ...	12,952,717·71	
		27,845,809·85
		48,944,718·76

JUNE 30, 1936

ASSETS

	Yen	Yen
Advances to Government, Article 2, Convertible Bank Note Regulations ...		22,000,000·00
Other advances to Government		125,058,491·75
Advances on foreign bills		122,830,732·87
Advances on current accounts		278,452·70
Bills discounted		83,080,438·72
Bills discounted, Law No. 55 of 1927 ...		482,539,573·95
Deposits		33,764,672·60
Government bonds		544,009,076·90
Bullion :		
Gold	293,681,107·48	
Silver	14,544·30	
		293,695,651·78
Agencies accounts		35,813,111·39
Agencies accounts, specified		17,845,429·23
Foreign agencies accounts		35,176,928·74
Suspense payments		4,141,536·68
Bank premises		16,137,629·83
Capital unpaid		15,000,000·00
Redemption fund for Fractional Government Notes as *per contra*		11,040,000·00
Cash items on Government account ...		14,521,218·82
Funds for payment of Mint certificates as *per contra*		870,892·70
Cash on hand :		
Gold coin	230,422,904·00	
Others	66,057,737·78	
		296,480,641·78
Total		2,154,284,480·44

HALF-YEAR ENDED JUNE 30, 1936

	Cr.
	Yen
By Gross profits for the half-year	36,601,200·21
By Balance brought forward from last half-year	12,343,518·55
	48,944,718·76

BALANCE SHEET

LIABILITIES

	Yen	Yen
Notes issued		1,865,703,384·50
Redemption fund for Fractional Government Notes		10,990,000·00
Government deposits :		
Current account	105,220,796·53	
Other	110,675,012·88	
		215,895,809·41
Funds for payment of Mint certificates ...		870,892·70
Current accounts		128,779,612·42
Remittances		3,475,251·61
Due to other banks		214,824·12
Suspense receipts		71,429,425·21
Reserve for sundry expenditures		16,052,000·00
Reserve for settlement of account *re* Bills discounted, Law No. 55 of 1927 ...		3,578,000·00
Capital subscribed		60,000,000·00
Reserve fund		115,390,000·00
Dividends unpaid		3,786·48
Profit brought forward from last half-year		12,952,717·71
Net profit for the current half-year ...		6,847,984·61
Total		2,512,183,688·77

PROFIT AND LOSS ACCOUNT FOR THE

Dr.

	Yen	Yen
To Expenses, taxes, interest, etc.		14,938,969·36
To Balance appropriated :		
Dividend at the rate of 10 per cent. per annum	2,250,000·00	
Reserve fund	300,000·00	
Payments to the Government ...	3,895,199·70	
Bonus and allowances	240,000·00	
Reserve for settlement of account *re* Bills discounted, Law No. 55 of 1927	433,000·00	
Balance carried forward	12,682,502·62	
		19,800,702·32
		34,739,671·68

DECEMBER 31, 1936

ASSETS

	Yen	Yen
Advances to Government, Article 2, Convertible Bank Note Regulations ...		22,000,000·00
Other advances to Government		164,442,257·41
Advances on foreign bills		159,124,931·57
Bills discounted		113,148,463·33
Bills discounted, Law No. 55 of 1927 ...		472,479,789·55
Deposits		31,698,672·60
Government bonds		829,073,033·38
Bullion :		
Gold	317,917,262·87	
Silver	14,544·30	
		317,931,807·17
Agencies accounts		26,353,835·67
Agencies accounts, specified		7,217,932·31
Foreign agencies accounts		51,023,421·60
Suspense payments		3,624,188·72
Bank premises		16,832,919·60
Capital unpaid		15,000,000·00
Redemption fund for Fractional Government Notes as *per contra*		10,990,000·00
Cash items on Government account ...		11,138,030·49
Funds for payment of Mint certificates as per contra		870,892·70
Cash on hand :		
Gold coin	230,426,169·00	
Others	28,807,343·67	
		259,233,512·67
Total		2,512,183,688·77

HALF-YEAR ENDED DECEMBER 31, 1936

Cr.

	Yen
By Gross profits for the half-year	21,786,953·97
By Balance brought forward from last half-year	12,952,717·71
	34,739,671·68

STATEMENT OF NOTE ISSUES

	June 30, 1936	December 31, 1936
	Yen	Yen
Notes issued	1,490,781,157·50	1,865,703,384·50
Specie reserve :	Yen	Yen
Gold coin	230,422,904·00	230,426,169·00
Gold bullion	293,680,131·00	317,916,286·00
	524,103,035·00	548,342,455·00
Securities :		
Government bonds .	413,976,322·50	704,399,642·50
Government securities	140,580,533·68	181,854,095·25
Bills and notes	264,590,533·45	247,282,260·18
Other securities .	147,530,732·87	183,824,931·57
	966,678,122·50	1,317,360,929·50
Total ...	1,490,781,157·50	1,865,703,384·50

TOTAL OPERATIONS DURING THE YEAR 1936

Bank Offices	Receipts	Payments	Total
	Yen	Yen	Yen
Osaka ...	22,998,982,768·21	23,000,638,084·39	45,999,620,852·60
Moji ...	2,986,264,024·79	2,986,166,514·36	5,972,430,539·15
Nagoya ...	4,676,871,067·42	4,676,432,865·85	9,353,303,933·27
Otaru ...	1,493,669,816·22	1,494,059,353·67	2,987,729,169·89
Kyoto ...	2,105,514,945·87	2,105,642,488·76	4,211,157,434·63
Fukushima	893,541,257·39	893,361,128·73	1,786,902,386·12
Hiroshima ...	1,362,405,890·61	1,362,532,384·53	2,724,938,275·14
Hakodate ...	375,005,524·64	374,891,273·19	749,896,797·83
Kanazawa ...	1,103,943,630·99	1,104,190,308·41	2,208,133,939·40
Niigata ...	574,893,156·83	574,562,299·31	1,149,455,456·14
Matsumoto	374,060,420·38	374,111,366·79	748,171,787·17
Kumamoto	841,386,375·58	840,999,925·21	1,682,386,300·79
Akita ...	536,985,522·37	536,995,050·70	1,073,980,573·07
Matsuye ...	347,039,542·37	347,303,733·32	694,343,275·69
Okayama ...	896,529,657·23	896,686,531·34	1,793,216,188·57
Kobe ...	7,556,827,448·00	7,556,576,052·55	15,113,403,500·55
Matsuyama	303,003,104·56	303,019,946·39	606,023,050·95
Total (Branches)	49,426,924,153·46	49,428,169,307·50	98,855,093,460·96
Head Office	113,824,892,849·17	113,823,739,567·87	227,648,632,417·04
Total ...	163,251,817,002·63	163,251,908,875·37	326,503,725,878·00
Total, 1935	140,471,658,540·56	140,470,324,214·75	280,941,982,755·31

BILLS DISCOUNTED

Bank Offices	Bills, General	
	Number	Amount
		Yen
Osaka	190	240,740,000·00
Moji	70	25,700,950·00
Nagoya	107	49,800,000·00
Otaru	12	970,000·00
Kyoto	5	815,000·00
Fukushima	8	2,855,657·75
Hiroshima	47	17,400,000·00
Hakodate	1	110,000·00
Kanazawa	238	24,875,000·00
Niigata	52	5,900,000·00
Matsumoto	2	250,000·00
Kumamoto	2	370,000·00
Akita	2	210,000·00
Matsuye	114	10,450,000·00
Okayama	107	25,100,000·00
Kobe	12	7,300,000·00
Matsuyama	73	8,580,000·00
Total (Branches)	1,042	421,426,607·75
Head Office	978	1,691,431,919·15
Total	2,020	2,112,858,526·90

DURING THE YEAR 1936

Bills, Law No. 55 of 1927		Total 1936		Total 1935	
Number	Amount	Number	Amount	Number	Amount
	Yen		Yen		Yen
4	1,177,800·00	194	241,917,800·00	14	7,541,540·00
140	38,140,870·00	210	63,841,820·00	146	45,631,740·00
—	—	107	49,800,000·00	14	3,850,000·00
—	—	12	970,000·00	4	140,000·00
—	—	5	815,000·00	4	1,000,000·00
12	3,577,100·00	20	6,432,757·75	17	3,905,500·00
—	—	47	17,400,000·00	7	2,600,000·00
—	—	1	110,000·00	1	80,000·00
—	—	238	24,875,000·00	162	15,040,000·00
—	—	52	5,900,000·00	40	5,170,000·00
—	—	2	250,000·00	13	1,950,000·00
—	—	2	370,000·00	1	200,000·00
—	—	2	210,000·00	—	—
—	—	114	10,450,000·00	57	4,460,000·00
—	—	107	25,100,000·00	14	4,750,000·00
—	—	12	7,300,000·00	—	—
324	26,013,164·00	397	34,593,164·00	339	28,343,567·00
480	68,908,934·00	1,522	490,335,541·75	833	124,662,347·00
74	2,559,914,900·00	1,052	4,251,346,819·15	474	4,246,043,533·24
554	2,628,823,834·00	2,574	4,741,682,360·90	1,307	4,370,705,880·24

TRANSACTIONS IN CURRENT ACCOUNTS DURING THE YEAR 1936

Bank Offices	Receipts	Withdrawals	Balance at the End of the Year	
			Deposits	Advances
	Yen	Yen	Yen	Yen
Osaka ...	16,625,812,453·97	16,619,349,107·46	33,259,983·50	—
Moji ...	958,613,934·12	957,621,924·27	2,362,800·93	—
Nagoya	2,858,504,792·17	2,859,075,607·90	5,274,853·88	—
Otaru ...	542,992,100·45	543,152,943·09	2,003,100·08	—
Kyoto ...	1,153,597,373·84	1,152,582,175·64	2,837,962·37	—
Fukushima	144,536,604·70	144,481,401·03	330,555·75	—
Hiroshima	546,531,359·59	547,350,754·13	847,212·11	—
Hakodate	219,125,258·23	219,314,267·98	257,259·62	—
Kanazawa	499,124,488·84	499,037,786·59	654,071·61	—
Niigata ...	239,219,673·76	238,841,830·33	898,611·54	—
Matsumoto	131,446,664·31	131,403,713·72	310,124·53	—
Kumamoto	250,149,542·62	250,090,972·74	385,561·37	—
Akita ...	191,041,056·41	191,096,923·75	604,550·47	—
Matsuye ...	127,718,673·53	127,856,680·84	262,569·30	—
Okayama	381,998,372·89	381,948,225·07	725,819·58	—
Kobe ...	5,995,197,582·94	5,993,615,615·68	6,303,728·16	—
Matsuyama	117,529,132·41	117,552,363·01	273,138·68	—
Total (Branches)	30,983,139,064·78	30,974,372,293·23	57,591,903·48	—
Head Office	39,111,720,832·59	39,103,706,329·82	71,187,708·94	—
Total ...	70,094,859,897·37	70,078,078,623·05	128,779,612·42	—
Total, 1935 ...	62,250,671,377·94	62,242,473,775·94	112,567,918·96	569,580·86

TRANSACTIONS WITH THE CORRESPONDENTS DURING THE YEAR 1936

Bank Offices	Receipts	Payments	Balance at the End of the Year	
			Due from	Due to
	Yen	Yen	Yen	Yen
Osaka	9,074·80	9,074·80	—	—
Moji	93,240,544·26	93,237,229·62	—	4,327·87
Nagoya	24,310·08	24,310·08	—	—
Otaru	—	—	—	—
Kyoto	—	—	—	—
Fukushima	—	—	—	—
Hiroshima	—	—	—	—
Hakodate	—	—	—	—
Kanazawa	380,355·26	380,621·47	—	—
Niigata	4,201·83	4,200·07	—	61·12
Matsumoto	—	—	—	—
Kumamoto	—	—	—	—
Akita	20,018·20	20,018·20	—	—
Matsuye	—	—	—	—
Okayama	—	—	—	—
Kobe	—	—	—	—
Matsuyama	—	—	—	—
Total (Branches) ...	93,678,504·43	93,675,454·24	—	4,388·99
Head Office... ...	1,550,863·62	1,607,845·37	—	210,435·13
Total	95,229,368·05	95,283,299·61	—	214,824·12
Total 1935 ...	72,469,866·25	72,312,567·66	—	268,755·68

TRANSFERS

Bank Offices	Between the Bank Offices			
	Receipts		Payments	
	Number	Amount	Number	Amount
		Yen		Yen
Osaka	5,783	2,463,223,110·61	5,742	2,325,267,915·57
Moji	934	183,872,465·06	1,229	331,420,570·08
Nagoya	1,413	573,881,116·13	1,723	597,012,851·41
Otaru	683	96,993,449·53	876	152,032,135·03
Kyoto	1,473	356,622,256·47	1,467	363,930,308·67
Fukushima ...	568	62,911,674·57	440	81,071,632·37
Hiroshima	1,209	175,500,653·56	757	112,696,479·99
Hakodate	449	53,482,427·06	484	59,388,608·72
Kanazawa	844	124,837,100·48	916	144,310,354·62
Niigata	345	56,225,742·94	502	79,082,004·38
Matsumoto ...	471	43,164,999·76	366	53,411,955·33
Kumamoto ...	581	95,394,409·27	371	54,350,331·36
Akita	316	35,107,207·87	502	62,558,439·30
Matsuye	665	42,316,499·60	438	40,543,951·15
Okayama	631	104,365,910·97	688	111,669,558·05
Kobe	1,403	733,413,202·32	1,327	902,605,231·64
Matsuyama ...	457	33,005,405·73	387	42,079,792·99
Total (Branches) ...	18,225	5,234,317,631·93	18,215	5,513,432,120·66
Head Office ...	6,503	3,077,661,119·34	6,520	2,802,139,221·58
Total	24,728	8,311,978,751·27	24,735	8,315,571,342·24
Total 1935 ...	23,587	7,830,665,738·37	23,590	7,829,235,693·94

DURING THE YEAR 1936

Between the Bank and its Correspondents				Bank Offices
Receipts		Payments		
Number	Amount	Number	Amount	
	Yen		Yen	
—	—	4	9,074·80	... ... Osaka
—	—	267	93,237,229·62	... ... Moji
—	—	2	24,310·08	... ... Nagoya
—	—	—	—	... ... Otaru
—	—	—	—	... ... Kyoto
—	—	—	—	... ... Fukushima
—	—	—	—	... ... Hiroshima
—	—	—	—	... ... Hakodate
—	—	15	380,621·47	... ... Kanazawa
—	—	2	4,200·00	... ... Niigata
—	—	—	—	... ... Matsumoto
—	—	—	—	... ... Kumamoto
—	—	2	20,000·00	... ... Akita
—	—	—	—	... ... Matsuye
—	—	—	—	... ... Okayama
—	—	—	—	... ... Kobe
—	—	—	—	... ... Matsuyama
—	—	292	93,675,435·97	... Total (Branches)
—	—	347	1,607,814·11	... ... Head Office
—	—	639	95,283,250·08	... ... Total
—	—	670	72,312,368·20	... ... Total 1935

TRANSACTIONS IN THE TREASURY FUNDS DURING THE YEAR 1936

Bank Offices	Receipts	Payments
	Yen	Yen
Osaka	999,567,560·84	1,532,764,649·42
Moji	669,358,927·59	585,583,815·98
Nagoya	409,251,038·36	474,850,709·84
Otaru	359,676,042·56	312,772,653·87
Kyoto	160,821,817·58	155,980,474·40
Fukushima	281,672,978·27	258,919,209·18
Hiroshima	263,376,800·38	325,672,902·37
Hakodate	27,929,360·68	24,586,640·24
Kanazawa	142,572,402·08	151,411,953·86
Niigata	93,679,165·54	88,106,173·74
Matsumoto	57,917,178·15	53,156,859·82
Kumamoto	242,397,929·67	256,080,827·11
Akita	116,617,824·72	105,252,473·76
Matsuye	50,741,922·90	55,750,099·30
Okayama	144,035,455·95	142,225,758·97
Kobe	272,944,313·84	167,995,705·23
Matsuyama	37,205,103·42	34,278,255·25
Total (Branches)	4,329,765,822·53	4,725,389,162·34
Head Office	34,174,812,056·20	33,848,046,557·70
Total	38,504,577,878·73	38,573,435,720·04
Total 1935	29,459,201,403·15	29,405,670,719·66

THE BANK OF JAPAN ACT

Promulgated by Imperial Ordinance No. 32 of June 27 of the 15th Year of Meiji (1882)

Article 1. The Bank of Japan shall be of limited liability, and for the discharge of the Bank's liabilities the shareholders shall be liable only to the amount of the shares held by them.

Article 2. The Bank of Japan shall establish its Head Office in Tokyo. The Bank may establish its branches in the chief cities of Prefectures and in other localities where such establishments are needed, or may enter into an agreement with other banks as its correspondents; provided that in case of such branches being established or an agreement being entered into with other banks as correspondents, the Bank must obtain the approval of the Minister of State for Finance by presenting a statement in full of the reasons therefor. Further, the Minister of State for Finance may instruct the Bank to establish a branch wherever he deems it to be needed.

Article 3. The business term of the Bank of Japan shall be full thirty years, reckoning from the day of commencement of its operations; provided that application may be made to the Government for the extension of the term in pursuance with the resolution to that effect passed by the General Meeting of Shareholders.*

Article 4. The capital of the Bank of Japan shall be 10 million yen, divided into 50,000 shares of 200 yen each. However, application may be made to the Government for an increase of its capital in pursuance with the resolution to that effect passed by the General Meeting of Shareholders.†

Article 5. All the shares of the Bank of Japan shall be registered, and the Japanese alone shall be entitled to make a sale, a purchase, or a transfer thereof.

Article 6. Any person who desires to become a shareholder of the Bank of Japan must obtain the permission of the Minister of State for Finance.

Article 7. The Bank may commence business when one-fifth of

* The term of business was extended in 1910 for another thirty years till October 9, 1942.

† The amount of capital was increased in 1887 to 20 million yen, divided into 100,000 shares; in 1895, to 30 million yen, divided into 150,000 shares; and in 1910, to 60 million yen, divided into 300,000 shares.

the total capital, namely 2 million yen, has been paid in. The mode of the calling in of the capital shall be regulated by the by-laws.

Article 8. If losses have resulted from the operations of the Bank, and thereby reduced a portion of the actual amount of the capital paid in, the Bank, after making scrutiny into the causes of such losses, shall call up a further instalment on the unpaid balance of the capital to an extent making up for the reduced amount.

Article 9. If there is a necessity for requiring a further instalment of the capital owing to the expansion of business, the required amount shall be called up out of the unpaid balance of the capital.

Article 10.* After deducting from the total net profits the amount of dividends, at least one-twentieth of the remainder shall be set aside as a reserve fund for the following purposes :

1. To make good losses in the capital.
2. To make up for the deficit of dividends.

Article 11. The operations of the Bank shall be as follows :

1. To discount or purchase bills or notes issued by the Government, bills of exchange, and other commercial bills as well as similar instruments.
2. To deal in gold and silver bullion.
3. To make loans on gold and silver coin and bullion.
4. To collect bills for the banks, companies and merchants who had previously entered into a business relation with the Bank.
5. To receive sums of money in deposit accounts, and gold and silver coin, precious metals, and documents for safekeeping.
6. To make advances on current account or loans for fixed terms upon the deposit of public loan bonds, bills or notes issued by the Government, and other securities guaranteed by the Government, provided that the amount of such advances and loans and the rates of interest thereon shall be determined on each occasion by a joint resolution of the Governor, the Vice-Governor, the Directors, and the Auditors, with the approval of the Minister of State for Finance.

Article 12. The Bank of Japan shall not engage in lines of business other than those set forth in Article 11, and is expressly forbidden to undertake the following operations :

1. To make loans on the security of real estate or shares of banks or other companies.
2. To make loans on the security of shares of the Bank or to purchase the same.
3. To become a shareholder in industrial companies or to take any part, either directly or indirectly, in industrial enterprises.

* As amended by Law No. 10 of June 17, 1932.

4. To become the owner of real estate except so far as it is necessary for establishing the Head Office and branches of the Bank.

Article 13. The Bank of Japan shall undertake the management of Treasury funds at the convenience of the Government.

Article 14. The Bank of Japan shall have the power of issuing convertible bank notes, provided that, when the Bank is allowed to issue the notes, express regulations relating thereto shall be drawn up and promulgated.

Article 15. The Bank of Japan is authorised to issue drafts and orders.

Article 16. The Bank of Japan may purchase or dispose of public loan bonds, provided that in such cases the approval of the Minister of State for Finance shall be obtained.

Article 17. The Bank of Japan shall be administered by one Governor, one Vice-Governor, and four Directors. Besides these, there shall be from three to five Auditors.

Article 18. The Governor and the Vice-Governor shall be appointed by the Government for a term of five years, the former being appointed with the Imperial nomination and the latter with the Imperial approval, and they will not be allowed to hold any other official appointments during their tenure of office.

Article 19. The Directors shall be elected by the General Meeting of Shareholders and appointed by the Minister of State for Finance, and the Auditors shall be elected by the General Meeting of Shareholders.

The term of office for the Directors shall be four years, and that for the Auditors three years.*

The Directors and Auditors will not be allowed during their tenure of office to become officers of other banks or companies as well as of similar establishments.†

Article 20. The Governor shall convoke an ordinary General Meeting of Shareholders for each half-year.

The Government may convoke an extraordinary General Meeting of Shareholders whenever he deems such meeting to be necessary.

The Governor must convoke an extraordinary General Meeting of Shareholders, if all the Auditors or fifty or more shareholders who are entitled to attend a General Meeting make application for such meeting, stating the object for which it is to be held.

Shareholders entitled to attend a General Meeting shall be only those owning ten or more shares for at least sixty days running before the day of such meeting.

No shareholder is allowed to be represented in the General Meeting of Shareholders by any other person than one entitled to attend such a meeting.

* This paragraph was amended as above on August 8, 1890.

† This paragraph was added on August 8, 1890.

Each shareholder entitled to attend a General Meeting shall have one vote for every ten shares held, with one additional vote for every fifty shares over and above that number, provided that no one can have more than ten votes as proxy for others.*

Article 21. The Minister of State for Finance shall despatch Comptrollers to the Bank on express commission to supervise all its affairs.

Article 22. The Bank of Japan shall prepare a statement showing the condition of the Head Office and the branches of the Bank as well as of its correspondents, and shall submit it to the Minister of State for Finance at least once a month.

Article 23. The Bank of Japan shall draw up its by-laws in conformity with the principles set forth in the present Act, and shall obtain the approval of the Government therefor. In the case of an amendment being made in the by-laws, or in the case of matters not provided for in the by-laws being dealt with, resolutions in each case shall be passed by a General Meeting of Shareholders, and the approval of the Government shall be obtained therefor.

Article 24. The Government shall control all the operations of the Bank of Japan, and shall prevent not only any operation which is contrary to the Act or by-laws, but also any measure that the Government may deem disadvantageous for the State.

Article 25. Any revision or amendment made in the present Act shall be promulgated three months before the date when such revision or amendment shall take effect.

* All the paragraphs of this Article were amended or added as above on August 8, 1890.

LAW CONCERNING PAYMENTS TO THE GOVERNMENT BY THE BANK OF JAPAN

Law No. 10 *of June 17th of the 7th Year of Showa* (1932)

The Bank of Japan shall pay to the Government for each half year one-half of the remainder of the net profits after deducting the undermentioned sums of money :

1. The amount equivalent to 6 per cent. per annum on the paid-up capital.
2. The amount equivalent to the minimum to be set apart as reserve fund pursuant to Article 10 of The Bank of Japan Act.

In case the remainder of the net profits after the deduction of the sums mentioned in Nos. 1 and 2 of the preceding paragraph and of the sum to be paid to the Government as prescribed in the same paragraph exceeds the amount equivalent to 4 per cent. per annum on the paid-up capital, the Bank shall pay three-fourths of such excess amount to the Government.

The amounts paid to the Government in accordance with this Law are counted as losses in computing incomes under the Income Tax Law and net profits under the Business Profits Tax Law.

The payments to be made to the Government in accordance with this Law shall be effected not later than the last day of August in respect of the first half year and not later than the last day of February of the ensuing year in respect of the second half year.

Addenda

This Law shall apply beginning with the second half year of the 7th year of Showa (1932).

The Law No. 56 of the 32nd year of Meiji (1899)* shall be annulled as from July 1 of the 7th year of Showa (1932), provided that said Law shall remain in force with regard to the tax on the note issues previous to said date.

The " one-tenth " in Article 10 of The Bank of Japan Act is amended as " one-twentieth."

* Law relating to taxation on note issues.

LAW CONCERNING THE ADVISORY COUNCIL OF THE BANK OF JAPAN

Law No. 11 *of June* 17 *of the 7th Year of Showa* (1932)

Article 1. There shall be created in the Bank of Japan an Advisory Council of the Bank of Japan whose function it shall be to respond to the consultation of the Governor of the Bank of Japan on the important operations of said Bank.

Article 2. The Advisory Council of the Bank of Japan shall consist of a president and not more than five members.

Article 3. The Governor of the Bank of Japan shall be the President of said Advisory Council.

Article 4. The members of the Advisory Council of the Bank of Japan shall be appointed by the Minister of State for Finance from among persons engaged in finance or industry, or men of learning and experience. Their term of office shall be three years.

The members of said Advisory Council shall receive no salaries.

Article 5. The Governor of the Bank of Japan shall convene the meeting of said Advisory Council at least once a month.

Article 6. The Advisory Council of the Bank of Japan may express its views to the Governor of the Bank of Japan concerning the operations of said Bank.

A member of the Advisory Council of the Bank of Japan may, when deemed necessary and with the consent of at least two members of said Advisory Council, ask the President to convene the meeting of said Advisory Council.

Addendum

The date of coming into force of this Law shall be fixed by an Imperial Ordinance.

IMPERIAL ORDINANCE NO. 102

Of June 28 *of the 7th Year of Showa* (1932)

The Law concerning the Advisory Council of the Bank of Japan shall come into effect as from July 1 of the 7th year of Showa (1932).

BY-LAWS OF THE BANK OF JAPAN

Drawn up in accordance with The Bank of Japan Act and approved by the Government on October 6 of the 15th Year of Meiji (1882)

CHAPTER I

Organisation of the Bank

Article 1. The Bank of Japan is of limited liability, and for the discharge of the Bank's liabilities the shareholders shall be liable only to the amount of the shares held by them.

Article 2. The Bank of Japan shall establish its Head Office in Tokyo. The Bank may establish its branches in the chief cities of Prefectures and in other localities where such establishments are needed, or may enter into an agreement with other banks as its correspondents; provided that in case of such branches being established or an agreement being entered into with other banks as correspondents, the Bank must obtain the approval of the Minister of State for Finance by presenting a statement in full of the reasons therefor. Further, the Minister of State for Finance may instruct the Bank to establish a branch wherever he deems it to be needed.

Article 3. Matters relating to the establishment of branches or the rules for an agreement to be entered into with other banks as correspondents shall be determined by a resolution of the Administrative Board of the Bank, and the approval of the Minister of State for Finance shall be obtained therefor.

Article 4. The business term of the Bank of Japan shall be full thirty years, reckoning from October 10 of the 15th Year of Meiji (1882), in conformity with Article 3 of the Act. In case, however, an extension of the term is decided upon by General Meeting of Shareholders, the Bank shall obtain the further approval of the Government upon the application therefor.*

Article 5. The Bank of Japan shall wind up should the balance sheet show losses aggregating or exceeding one-half of its capital.

Except in the case mentioned in the preceding paragraph, if the Bank winds up before the expiration of the term, the approval of

* For the extension of the business term see note under Article 3 of The Bank of Japan Act.

the Government therefor must be obtained after a resolution to that effect has been passed by a vote of three-fourths or more of the number of persons present in a General Meeting of Shareholders and owing at least one-half of the entire amount of the Bank's shares.

Article 6. If the Bank of Japan winds up either at the expiration of the term or before the term in any of the cases mentioned in the preceding Article, the General Meeting of Shareholders shall elect the liquidators and determine their powers as well as their duties, and the approval of the Government must be obtained therefor.

CHAPTER II

Capital and Reserve Fund

Article 7. The capital of the Bank of Japan shall be 10 million yen divided into 50,000 shares of 200 yen each. However, the capital may be increased by order of the Government, and also by a resolution at the General Meeting of Shareholders, with the approval of the Government therefor.*

Article 8. The Government may become a shareholder in the Bank of Japan by taking over shares to an extent amounting to one-half of its capital.

Article 9. One-fifth of the Bank's total capital, namely 2 million yen (40 yen per share), shall be paid in not later than five days prior to the commencement of the Bank's operations.

The amount and date of paying in the capital are fixed as follows:

First instalment: 40 yen per share to be paid in between September 15 and 30, 1882.

Second instalment: 20 yen per share to be paid in between May 15 and 31, 1883.

Third instalment: 20 yen per share to be paid in between October 1 and 15, 1883.

Fourth instalment: 20 yen per share to be paid in between May 15 and 31, 1884.

The subsequent instalments, after the sum of 100 yen shall have been paid in, shall be called up at the convenience of the Bank; provided that no one instalment on each share shall be less than 20 yen or more than 50 yen. Notice shall be given to the Shareholders two months in advance of the date of such payment through newspapers or by some other method.†

Article 10. If losses have resulted from the operations of the Bank, and thereby reduced a portion of the actual amount of the capital paid in, the Bank, after making scrutiny into the causes of such losses, shall call up a further instalment on the unpaid balance of the capital to an extent making up for the reduced amount.

* For the actual amount of the capital see note under Article 4 of The Bank of Japan Act.

† This paragraph was amended as above on August 17, 1895.

Article 11. If there is a necessity for requiring a further instalment on the capital owing to the expansion of business, the required amount shall be called up out of the unpaid balance of the capital.

Article 12. If any shareholder fails to pay an instalment on his share or shares at the appointed date of payment, the Bank shall require him to pay in addition a fine of one-tenth of the instalment called up. Further, in case of non-payment even after two months had elapsed, the Bank shall sell off the share or shares in question, and having deducted from the proceeds of such sale the amount of the instalment called up, fine, and expenses connected with the sale, shall return the surplus, if any, to the original shareholder, whereas the deficit, if any, shall be collected from him.

Article 13. All the shares of the Bank shall be registered, and the Japanese alone shall be entitled to make a sale, a purchase, or a transfer thereof.

Article 14. Any person who desires to become a shareholder of the Bank of Japan must obtain the permission of the Minister of State for Finance.

Article 15. The shares shall be entered in the Shareholders' Register kept at the Bank. In case of a sale, a purchase, or a transfer of the shares being made, the party making delivery thereof shall apply to the Bank in writing for that purpose, and the Bank shall notify the party concerned of the fact that it has obtained the approval of the Minister of State for Finance. Upon the receipt of the notice, the said party shall draw up an instrument of sale or of transfer, jointly signed and sealed by both parties, and shall present it to the Bank, accompanied by the share certificates ; whereupon the Bank shall make an entry of them in the Register, and, in order to vouch for the sale or transfer in question, the Governor and the Chiefs of the Secretary's Department and of the Security Department shall sign and stamp their seals on the back of the share certificates.

The share certificates of the Bank shall be of five denominations, namely one share apiece, five shares apiece, ten shares apiece, 100 shares apiece, and 1,000 shares apiece ; and the certificates of any of these denominations shall be delivered to a shareholder at his discretion. However, upon payment of the prescribed charge he may apply to the Bank for alteration in the denominations of the share certificates held.*

Article 16. Each share shall give to a shareholder one equal right, irrespective of the number of the shares held, in the joint ownership of the Bank's assets and in the division of profits.

Article 17. Persons who become shareholders of the Bank of Japan shall abide by its by-laws and the decisions taken at the General Meetings of Shareholders.

Article 18. The rights and obligations pertaining to each share shall follow the certificate (by whomsoever it may be held).

* This paragraph was added on February 19, 1898.

Article 19.* The reserve fund prescribed in Article 36 No. 2 shall be set apart for the following purposes:

1. To make good losses in the capital.
2. To make up for the deficiency in the dividend when the same falls below the rate prescribed in Article 36 No. 1.

Article 20. The reserve fund mentioned in the preceding Article shall be employed in the purchase of gold and silver coin or bullion and public loan bonds, provided that all the earnings accruing from such fund shall be added to the gross profits of the Bank.

* As amended on August 26, 1932.

CHAPTER III

Operations of the Bank

Article 21. The operations of the Bank shall be as follows :

1. To discount or purchase bills or notes issued by the Government, bills of exchange, and other commercial bills as well as similar instruments.
2. To deal in gold and silver bullion.
3. To make loans on gold and silver coin and bullion.
4. To collect bills for banks, companies, and merchants who had previously entered into a business relation with the Bank.
5. To receive sums of money in deposit accounts, and gold and silver coin, precious metals, and documents for safe keeping.
6. To make advances on current account or loans for fixed terms upon the deposit of public loan bonds, bills or notes issued by the Government, and other securities guaranteed by the Government.

Article 22. The Bank of Japan shall not engage in lines of business other than those set forth in Article 21, and is expressly forbidden to undertake the following operations :

1. To make loans on the security of real estate or shares of banks or other companies.
2. To make loans on the security of shares of the Bank or to purchase the same.
3. To become a shareholder in industrial companies or to take part, either directly or indirectly, in industrial enterprises.
4. To become the owner of real estate except so far as it is necessary for establishing the Head Office and branches of the Bank.

Article 23. The commercial bills to be discounted by the Bank of Japan shall be only such as are transferable by endorsement, stamped in accordance with the Stamp Duty Regulations, endorsed by two or more reliable persons of means, and payable within one hundred

days. However, such bills bearing only one endorsement may be admitted to discount, when a special agreement has been made by a resolution of the General Council of the Bank and approved by the Minister of State for Finance.

Article 24. In case an applicant for discounting a bill has deposited as pledge such merchandise or warehouse warrants as are of sufficient value to cover the amount of the bill, such pledge may be regarded as one signature with the seal affixed thereto and the bill may be admitted to discount.

Article 25. The discounting of bills or notes issued by the Government shall be determined by the Administrative Board, after consultation on each occasion with the Minister of State for Finance concerning the maturity and the rate of discount.

Article 26. The rate of discount shall be fixed monthly by the Administrative Board, and the branches shall follow the instruction as to the rates given on each occasion from the Head Office of the Bank. However, the rate may be changed at any time, if deemed necessary by the Administrative Board.

Article 27. The amount to be applied to the discount of bills or notes issued by the Government, and the amount of loans to be made upon the deposit of public loan bonds and other securities guaranteed by the Government, as well as the rate of interest thereon, shall be decided every ten days by the Administrative Board, and for the decision thereof, with the consent of the Auditors' Meeting, the approval of the Minister of State for Finanace must be obtained.

Article 28. The loans mentioned in Article 27 shall be made only to those persons whose means is considered reliable by the Bank, and the period for such loans at the longest shall not exceed six months, neither shall the amount advanced exceed 80 per cent. of the market value of the securities deposited.

If a loan is not repaid by a debtor at maturity, the security on deposit shall be sold ; and if there be any surplus after deducting the principal and interest of the loan, such surplus shall be returned to the debtor, whereas, should there be a deficiency, the Bank shall require the debtor to make good such deficiency. However, if he applies for renewal at maturity, the application may be complied with on one occasion only. This does not apply to cases where special permission has been granted by the General Council of the Bank.

Article 29. The Bank of Japan may purchase or dispose of public loan bonds as well as bills or notes issued by the Government. In such cases no transaction shall be carried out unless the decision of the Administrative Board, with the consent of the Auditors' Meeting, is approved by the Minister of State for Finance ; provided that such approval shall become null and void if the transaction is not carried out within thirty days after it has been obtained.

Article 30. The Bank of Japan shall have the power of issuing convertible bank notes, provided that this power cannot be exercised by the Bank until after special regulations in conformity with

Article 14 of The Bank of Japan Act have been promulgated by the Government.

Article 31. The Bank of Japan is authorised to issue drafts, deposit certificates, and transfer orders.

Article 32. The Bank of Japan is authorised to undertake the management of Treasury funds at the convenience of the Government.

Article 33. In the event of any loans made or bills discounted being considered insecure in their repayment, or of their having actually been in arrears or dishonoured, the Bank may take over to its possession the buildings, real estate, or other property owned by the debtors ; provided that such buildings, real estate, or other property must be disposed of within one year, unless permission to the contrary is obtained from the Minister of State for Finance.

CHAPTER IV

Balance Sheet and Distribution of Profits

Article 34. The Administrative Board shall draw up on June 30 and on December 31 of each year a balance sheet showing the condition of the Bank's operations. Within the twenty days following each balance sheet shall be submitted to the Auditors' Meeting, and the Auditors' Meeting shall examine such balance sheet within another twenty days from the date of its receipt. If the balance sheet has been approved by a majority in the Auditors' Meeting, it shall be considered as settled, whereas, if not so approved, it shall be submitted to the decision of the General Meeting of Shareholders.

Article 35. The expense for establishing the Bank, the working expenses and other outlays shall be deducted from the gross profits at the close of each half-yearly account, and the balance shall be the net profit ; provided that the expense for establishing the Bank shall be paid off by means of gradual liquidation.

Article 36.* The net profit shall be apportioned as follows :

1. A dividend shall be paid to the shareholders at the rate of 6 per cent. per annum on the paid-up capital.
2. After deducting the amount of the dividend mentioned above, at least one-twentieth of the remainder shall be set apart as a reserve fund.
3. After deducting the amount of the dividend mentioned in No. 1 and the sum equivalent to the minimum amount to be set apart as a reserve fund prescribed in No. 2, one-half of the remainder shall be paid to the Government.
4. Where the remainder after the deduction of the amount of the dividend mentioned in No. 1, the sum equivalent to the minimum amount to be set apart as a reserve fund prescribed in No. 2 and the sum to be paid to the Government mentioned in No. 3 is in excess of 4 per cent. per annum on the paid-up capital, three-fourths of such excess amount shall be paid to the Government.

* As amended on April 2, 1887 ; August 26, 1932.

5. Of the remainder after the deduction of the sums mentioned in Nos. 1 to 4, an amount to be fixed by the General Council of the Bank shall be deducted as bonuses and allowances to the officers, provided that such amount shall not exceed one-twentieth of the remainder of the net profit after the deduction of the amount of the dividend prescribed in No. 1.
6. The amount remaining after the deduction of the sums mentioned in Nos. 1 to 5 shall be divided among the shareholders at a rate approved by the Minister of State for Finance, provided that said amount may in whole or in part be set apart as a special reserve or carried over to next half-year.

Article 37. The dividends for the first half-year shall be distributed to the shareholders not later than August 30 in the current year, and the dividends for the second half-year not later than February 28 in the ensuing year.

Article 38. If the dividend falls below the rate prescribed in Article 36 No. 1 the deficit shall be made up by drawing on the reserve fund. If, however, the dividend for the ensuing half year exceeds the prescribed rate the amount made up from the reserve fund in the previous half year shall be refunded from such excess.

Article 39. The balance sheets and the profit and loss accounts for the first and second half years shall be presented to the Minister of State for Finance and advertised in newspapers. To the balance sheet and the profit and loss account for the second half year shall be appended the reports of the Administrative Board and of the Auditors on the operations for the year, and all these shall be forwarded to each shareholder about five days prior to the ordinary General Meeting of Shareholders to be held in February of the ensuing year.

Article 40. The Administrative Board of the Bank shall prepare a statement showing the condition of the Head Office and the branches of the Bank as well as of its correspondents, and shall submit it to the Minister of State for Finance at least once a month.

CHAPTER V

Administration of the Bank

Section I.—Organisation of the Staff

Article 41. The Bank of Japan shall be administered by one Governor, one Vice-Governor and four Directors, and the meeting of the Governor, the Vice-Governor, and the Directors is called the Administrative Board.

There shall be three to five Auditors to supervise the business management of the Bank, and the meeting of the Auditors is called the Auditors' Meeting.

Further, there shall be a Discount Committee to examine the bills to be discounted.

Article 42. The Governor shall be appointed by the Government with the Imperial nomination and the Vice-Governor with the Imperial approval, and their term of office shall be five years, both being eligible for reappointment any number of times at the expiration of their term. During their tenure of office, however, they are not allowed to hold any other official appointments.

Article 43. The Governor and the Vice-Governor shall reside within the district of Tokyo.

Article 44. The salaries and allowances of the Governor and the Vice-Governor shall be fixed by the Government and paid by the Bank.

Article 45. The term of office for the Directors shall be four years, and they shall be appointed by the Minister of State for Finance from among twice as many candidates elected in the General Meeting of Shareholders; provided that the Directors for the first term since the establishment of the Bank shall be appointed for five years by the Minister of State for Finance, whereas if any vacancy occurs among the Directors during the term a new member shall be appointed by the Minister of State for Finance to fill the vacancy during the remainder of the term.

Article 46. The Directors may be eligible for reappointment any number of times at the expiration of the term.

The Directors shall reside within the district of Tokyo.

Article 47.* One Director shall retire from office on the first day

* As amended on July 28, 1887.

of January of each year. The order of retirement shall be fixed by lot in the General Meeting of Shareholders to be held in the month of August of the 21st Year of Meiji (1888), and from the year following retirement shall take place in the order fixed for each year.

A Director who has been appointed to fill a vacancy caused by death or resignation shall hold office only for the remainder of his predecessor's term.

Article 48. The Governor, the Vice-Governor, the Directors, and the Auditors are not allowed during their tenure of office to become officers of other banks or companies as well as of similar establishments.

Article 49. The Auditors shall elect one of themselves as president of their Meeting.

Article 50. The Auditors shall be elected in a General Meeting of Shareholders for a term of three years, and at the expiration of the term they may be re-elected any number of times.

An Auditor whose term has expired shall retire after the General Meeting of Shareholders in February of each year.*

An Auditor who has been elected to fill a vacancy caused by death or resignation shall hold office only for the remainder of his predecessor's term.

Article 51. The Directors shall be appointed only from among the holders of 100 or more shares, and the Auditors from among the holders of forty or more shares, of the Bank.*

The above shares shall be deposited with the Bank as a guaranty for the management of the affairs by the Directors and the Auditors. Even if any of them should retire from office, his shares shall not be returned to him until after the balance sheet for the year had been approved by the Auditors' Meeting.

Article 52. The Governor, the Vice-Governor, the Directors, and the Auditors shall not incur any personal liability against engagements entered into with other persons concerning the operations of the Bank.

Article 53.† If the share in the bonuses to the officers provided for in Article 36 No. 5 exceeds 5,000 yen for each Director and 2,000 yen for each Auditor, the General Meeting of Shareholders may reduce such share to said amounts.

Section II.—The Governor and the Vice-Governor

Article 54. The Governor shall preside over the Administrative Board, the General Council of the Bank, and the General Meeting of Shareholders.

The Governor shall execute all the resolutions passed at the afore-mentioned meetings.

The Governor shall cause the various statements of accounts to

* This paragraph was amended as above on December 21, 1888.

† As amended on April 2, 1887; August 26, 1932.

be prepared by the Administrative Board, and shall submit them to the General Meeting of Shareholders.

The Governor shall watch over the entire business of the Bank and enforce the observance of the Act, the By-laws, the Internal Regulations and other rules.

All lawsuits relating to the operations of the Bank shall be conducted in the name of the Governor.

The Governor shall affix his signature and seal to agreements, compromises and all other documents in conformity with the decisions of the Administrative Board.

Documents relating to the Bank's operations as well as other documents, with the exception of those for daily routine, must be countersigned by the Chief of the Secretary's Department.

Article 55. The Governor, when he considers a decision of the Administrative Board improper, may immediately convene the General Council of the Bank to consult on the matter in question.

Should the Governor consider that a decision adopted by any of the meetings is contrary to the Act, to the by-laws, or to the interests of the State, he shall suspend the decision, and, at the same time, report it to the Government. If no express instruction therefor is received from the Government within thirty days from the time of such report, the original decision of the meetings shall be carried out.

Article 56. If circumstances prevent the Governor from attending to his duties, the Vice-Governor shall act in his stead.

Article 57. The Governor may designate certain minor duties of daily routine and entrust them to the Directors as his substitutes.

Section III.—The Administrative Board

Article 58. The Administrative Board shall decide all matters relating to the Bank. However, this does not apply to the case where there is a provision for matters to be decided by other meetings of the Bank.

The Board shall decide matters relating to the rates of discount, and the amounts to be applied to the discount of bills or notes issued by the Government, to loans on public loan bonds and other securities, and to the purchase of public loan bonds. The execution of these decisions is, however, subject to the approval of the Auditors' Meeting.

The Board shall decide the appointment and dismissal of the members of the Bank's staff, and shall fix the amount of their salaries and surety money.

Any member of the staff at the branches who is allowed to affix his signature and seal to documents in the name of the Bank, shall be designated and given a power of attorney by the Administrative Board.

The Board may decide matters concerning agreements and compromises, but must not carry out these matters without the consent of the Auditors.

The Board shall draw up an annual report on the operations of the Bank to be submitted to the General Meeting of Shareholders.

Article 59. The Administrative Board cannot pass any resolution unless a majority of its members is present.

All resolutions of the Board shall be passed by a majority of votes. If the votes are equally divided, the chairman shall decide.

Article 60. Minutes shall be kept of the deliberations at the Meeting of the Administrative Board, and the minutes stating the reasons for the decisions reached as well as the main items of transactions shall be signed and sealed by all the members present and by the Chief of the Secretary's Department.

Section IV.—The Auditors' Meeting

Article 61. The Auditors shall supervise all operations of the Bank and inspect all its books.

The Auditors shall examine, and approve, if deemed proper, the balance sheets, profit and loss accounts, and estimates of expenditure, which are drawn up and submitted by the Administrative Board.

The approval of the Auditors' Meeting shall be obtained for all decisions on matters relating to a change in the rate of discount, to an increase or a decrease of the amount of the bills or notes issued by the Government to be discounted or of the amount of loans to be made on the security of public loan bonds or other securities guaranteed by the Government, or to the purchase of public loan bonds. However, if circumstances require immediate action, the rate of discount only may be raised or lowered by a decision of the Administrative Board alone; provided that in such case the approval of the Auditors' Meeting must be obtained within five days.

Article 62. The Auditors' Meeting shall be held at least once a month. No resolution shall be carried if two or more of the Auditors are absent.

Resolutions shall be carried by a majority of votes. If the votes are equally divided, the matter in question shall be decided upon at the General Council of the Bank.

If no decision can be reached on account of the absence of two or more Auditors, only those matters requiring immediate action may be decided upon at the General Council of the Bank.

Article 63.* Of the share in the bonuses assigned to the Auditors, as provided for in Article 36 No. 5, one-half of the entire amount shall be equally divided among all the Auditors, and the other half shall be distributed to each Auditor in proportion to the number of his attendances.

Section V.—The General Council of the Bank

Article 64. The meeting of the Governor, the Vice-Governor, the Directors, and the Auditors is called the General Council of the Bank.

* As amended on April 2, 1887; August 26, 1932.

Article 65. The General Council of the Bank shall be held at least once a month for the purpose of considering the position of the Bank.

The Council shall decide all matters entrusted to it in accordance with the By-laws and the Internal Regulations.

The Council shall determine the distribution of profits and the amount of bonuses.

The Council shall determine the terms and procedure for receiving deposits for safe keeping.

The Council shall decide upon the Internal Regulations of the Bank as well as upon the Regulations for the Branches, drawn up by the Administrative Board.

The Council shall decide upon the establishment or abolition of branches.

The decisions on the matters mentioned in the four preceding paragraphs cannot be carried into effect unless the approval of the Minister of State for Finance is obtained therefor.

Article 66. Except in the case provided for in paragraph 3 of Article 62, no resolution shall be carried in the General Council of the Bank unless a majority of the members of the Administrative Board as well as of the Auditors are present.

Resolutions shall be carried by a majority of votes. If the votes are equally divided, the Chairman shall decide.

Section VI.—Discount Committee

Article 67. The Discount Committee shall consist of at least three persons, who shall be appointed by the General Council of the Bank, and who shall be given fees in proportion to the number of their attendances.

The members of this Committee may be appointed from among the Auditors.

One-half of the members of this Committee shall retire each year, but they are re-eligible.

Article 68. The Discount Committee shall be presided over by one Director, and the days and hours of meeting of the Committee shall be fixed by the Internal Regulations.

The Committee shall examine all the bills submitted, and when they deem such bills eligible for discount, they shall report the fact to the members of the Administrative Board of the Bank.

CHAPTER VI

The Comptrollers

Article 69. The Comptrollers, under the direction of the Minister of State for Finance, shall supervise all matters connected with the operations of the Bank, and especially those matters relating to the issue of the bank notes and the discounting of domestic and foreign bills.

Article 70. The Comptrollers are empowered, at any time, to inquire into the condition of the affairs of the Bank, and also to inspect the books and the vaults of the Bank.

Whenever required by the Comptrollers, the members of the Administrative Board shall present to them a general statement of the operations of the Bank, drawn up by the latter with their seals affixed thereto.

Article 71.* The Comptrollers may be present and express their opinion at the meetings of the Administrative Board, of the Auditors, of the General Council of the Bank, of the Discount Committee and of the Advisory Council of the Bank, and at the General Meeting of Shareholders ; provided that they have no right of voting.

* As amended on August 26, 1932.

CHAPTER VII

The General Meeting of Shareholders

Article 72. The General Meeting of Shareholders represents the claims of the entire shareholders.

All resolutions regularly carried at the General Meeting of Shareholders are obligatory even upon the absent or dissenting members.

Article 73. Shareholders entitled to attend the General Meeting shall be only those owning ten or more shares for at least sixty days before the date fixed for such meeting.

In the event of any such shareholder not attending the General Meeting, he may appoint some other shareholder to represent him.

Any firm, company, bank or any similar establishment, which is a shareholder of the Bank, may be represented by a member of the said firm, company, bank or establishment.

A woman, insane person, idiot or minor shall be represented at the General Meeting either by his or her guardian or by a shareholder entitled to attend the General Meeting.

Persons who act as proxies, as provided for in the preceding three paragraphs, shall bring with them powers of attorney and other necessary documents.

Article 74. Before the meeting opens on the day appointed, the shareholders shall sign their names on the presence list, and affix their seals thereto.

Article 75. Each shareholder shall have one vote for every ten shares held, with one additional vote for every fifty shares over and above that number ; provided that no one can have more than ten votes as proxy for others, whatever may be the number of persons by whom he is entrusted to represent. This, however, does not apply to the case of proxy for the Imperial Household, the Government, a company, a bank or a similar establishment.*

Article 76. An ordinary General Meeting of Shareholders shall take place on the third Saturday in February and August of each year.

An ordinary General Meeting shall pass upon the balance sheet of the preceding half year, mentioned in Article 34.

At the General Meeting in February the members of the Administrative Board of the Bank shall present to it the annual report on the operations of the Bank for the preceding year ended December 31.

* This proviso was amended as above on December 21, 1888.

At the General Meeting in August there shall be elected the Director and Auditors to take the place of those whose terms expire at the end of the year.

At either of the General Meetings in February and August there shall be elected the officers to fill the vacancies caused by death or resignation.

Article 77. Whenever deemed necessary by either the Minister of State for Finance or the Administrative Board, an extraordinary General Meeting of Shareholders may be convoked.

Upon request either of the Auditors' Meeting or of fifty or more persons who are entitled to attend the General Meeting of Shareholders, an extraordinary General Meeting of Shareholders may be convoked at any time.

Article 78. Whenever the General Meeting of Shareholders is to be convoked, whether it be an ordinary or an extraordinary meeting, notice shall be given to the shareholders at least thirty days in advance, and, further, the fact shall be published in newspapers.

If the General Council of the Bank considers that there is such urgency as to call without delay a General Meeting of Shareholders, the above-mentioned period may be reduced to fifteen days.

Article 79. The notices of meeting mentioned in the last Article must state the subjects to be submitted for deliberation.

Article 80. The two largest shareholders shall be chosen as Managers of the General Meeting from among the shareholders present, the Governor, the Vice-Governor, the Directors, and the Auditors being excepted; provided that, if any of those chosen declines to act, the next largest shareholder in order shall be appointed.

The Managers, together with the Governor, the Vice-Governor, and the Directors, shall sign the minutes kept for the meeting and affix their seals thereto.

Article 81. The General Meeting shall deliberate on the matters mentioned in the notices, provided that the propositions pertaining thereto are submitted to the Meeting by the Administrative Board or by the Auditors' Meeting.

Other propositions, if jointly signed by ten or more shareholders and presented to the Administrative Board at least ten days before the Meeting, may be made subjects for discussion of the day.

No shareholder shall be allowed to discuss matters not submitted to the meeting or to refer to personal criticism.

If the General Meeting recognises the importance of such special propositions which, though not mentioned in the notices, have been presented by the Administrative Board, they may be submitted to the Meeting for deliberation.

Article 82.* All resolutions shall be passed by a majority of votes. If the votes are equally divided, the Chairman shall decide.

Article 83. If, in the election of the candidates for Directors

* As amended on December 21, 1888.

mentioned in Article 45, they have not all obtained a majority vote, a number of persons twice as many as the candidates shall be selected from those who have obtained the most votes, and a second election shall be made from among these persons. Further, if the candidates have obtained the same number of votes, the election shall be decided according to the order of their seniority in age.

The preceding paragraph shall apply correspondingly to the case where no one candidate obtains a majority vote in the election of the Auditors.

Article 84. The dismissal of a Director or an Auditor during his term can be decided upon only by the consent of three-quarters or more of the shareholders present at a General Meeting, owning at least one-half of the entire shares of the Bank. The dismissal of a Director, however, must obtain the approval of the Minister of State for Finance.

CHAPTER VIII*

ADVISORY COUNCIL OF THE BANK OF JAPAN

Article 85. The Advisory Council of the Bank of Japan shall respond to the consultation of the Governor on the important operations of the Bank of Japan.

Article 86. The Advisory Council of the Bank of Japan shall consist of a president and not more than five members.

The Governor of the Bank shall be the President.

Article 87. The members of the Advisory Council of the Bank of Japan shall be appointed by the Minister of State for Finance. Their term of office shall be three years.

The members of said Advisory Council shall receive no salaries.

Article 88. The Governor shall convene the meeting of the Advisory Council of the Bank of Japan at least once a month.

Article 89. The Advisory Council of the Bank of Japan may express its views to the Governor concerning the operations of the Bank of Japan.

A member of the Advisory Council of the Bank of Japan may, when deemed necessary and with the consent of at least two members of said Advisory Council, ask the President to convene the meeting of said Advisory Council.

* This chapter was added on August 26, 1932.

CHAPTER IX

General Provisions

Article 90. Any amendment of the By-laws can only be passed in a General Meeting of Shareholders specially convoked for that purpose, and the proposed amendment must be stated in the notice of meeting.

The above-mentioned General Meeting of Shareholders cannot pass the proposed amendment unless the number of shares owned by the shareholders present fully represent three-fifths of the entire shares of the Bank.*

Resolutions shall not be carried in this General Meeting unless supported by at least two-thirds of the votes of the shareholders present.

Matters decided upon in this General Meeting shall not be operative unless approved by the Government.

Article 91. The Government shall control all the operations of the Bank, and shall prevent not only any operation which conflicts with the Act and the By-laws, but also any measure that the Government may deem disadvantageous for the State.

Article 92. The Government has the right to revise or amend the present By-laws of the Bank, whenever such revision or amendment is deemed necessary at the convenience of the Government.

Article 93.† The bullion to be kept in reserve against note issues in accordance with the first paragraph of Article 2 of the Convertible Bank Note Regulations, with the exception of the former gold and silver coins, shall be only bullion that has a degree of fineness higher than that suitable for coinage purposes; and the securities to be kept in reserve against such issues in accordance with the second paragraph of the same Article shall consist only of Government loan certificates and other securities guaranteed by the Government, as well as of such commercial bills as bills of exchange and promissory notes in their proper form.

Article 94.† The value of gold and silver bullion in reserve as provided for in the first paragraph of Article 2 of the Convertible Bank Note Regulations, as well as that of the public loan bonds, the

* This paragraph was amended as above on February 19, 1910.

† This article was added on December 21, 1888.

Treasury bills and other securities kept in reserve as provided for in the second paragraph of the same article, shall be decided by the Administrative Board, and for the decision thereof the approval of the Minister of State for Finance must be obtained.

Article 95.* The Bank shall obtain the approval of the Minister of State for Finance whenever the note issue under Article 2, paragraph 3, of the Convertible Bank Note Regulations is to be continued beyond fifteen days.

Article 96.† The Bank shall prepare the daily return respecting the amount of convertible bank notes issued, the amount of notes exchanged, and an increase or a decrease in the reserve, as well as the weekly return stating the average amounts thereof, and shall present to the Minister of State for Finance the daily return by ten o'clock a.m. of the following day, and the weekly return by Wednesday of the following week. Moreover, the weekly return shall be published in the *Official Gazette* of the same date.

* This article was added on December 21, 1888, and amended as above on August 26, 1932.

† This article was added on December 21, 1888.

Appendices

I

THE CONVERTIBLE BANK NOTE REGULATIONS*

Promulgated by Decree No. 18 *of the Dajokwan* (*the Council of State*) *on May* 26 *of the* 17*th Year of Meiji* (1884)

Article 1. Convertible bank notes shall be issued by the Bank of Japan in accordance with Article 14 of The Bank of Japan Act, and shall be convertible into gold coin.

Article 2. The Bank of Japan shall hold the equivalent in gold and silver coin or gold and silver bullion of the convertible bank notes issued as a reserve for exchange, provided that silver coin and silver bullion shall not exceed one-fourth of the total amount of such reserve.

Besides the issue against the reserve prescribed in the preceding paragraph, the Bank of Japan may issue convertible bank notes to the amount of 1,000 million yen† against Government loan bonds or Treasury bills or other certificates and commercial bills of reliable nature.

The Bank of Japan may, when deemed necessary, make an additional issue of convertible bank notes over and above the issues provided for in the two preceding paragraphs against the securities prescribed in the preceding paragraph, provided that the Bank shall obtain the approval of the Minister of State for Finance whenever such an additional issue is to be continued beyond fifteen days.

In the case of the proviso of the preceding paragraph, the Bank of Japan shall pay a tax in respect of the issue against securities in excess of 1,000 million yen as from the sixteenth day at the rate to be fixed by the Minister of State for Finance, provided that said rate shall not be less than 3 per cent. per annum.

The Bank of Japan shall make an advance to the Government to

* As amended by Notification No. 9 of May 7, 1885; Imperial Ordinance No. 59 of July 31, 1888; Laws of May 16, 1890 (No. 34); March 26, 1897 (No. 18); March 9, 1899 (No. 55); June 17, 1932 (No. 9).

† The amount of issue against securities, originally fixed at 70 million yen, was increased to 85 million yen on May 16, 1890, to 120 million yen on March 9, 1899, and to 1,000 million yen on July 1, 1932.

the amount of 22 million yen without interest for the purpose of redeeming Government paper money.

The period of repayment of the advance provided for in the preceding paragraph and the annual amount of repayment thereof shall be determined by the Minister of State for Finance.

Article 3. The denominations of convertible bank notes shall be 1 yen, 5 yen, 10 yen, 20 yen, 50 yen, 100 yen and 200 yen, seven kinds in all; and the amount of issue for each kind shall be determined by the Minister of State for Finance.

Article 4. Convertible bank notes shall be a legal tender in payment of taxes and customs duties, as well as in all monetary transactions.

Article 5. Convertible bank notes shall be manufactured by the Bank of Japan in conformity with forms and designs fixed by the Minister of State for Finance, and the amount manufactured thereof shall be reported to the Minister of State for Finance on each occasion; provided that specimens thereof shall be published by Notification by the Minister of State for Finance before the date of issue.

Article 6. If any person applies for exchange of the convertible bank notes, the Bank of Japan shall convert them into coin at its Head Office or its branches at any time during the business hours, provided that at the branches such conversion may be deferred until there is time for funds for exchange to arrive from the Head Office.

Article 7. If any person applies for exchange for the convertible bank notes on presentation of gold coin, the Bank of Japan shall take it in exchange for the notes, free of charge, at its Head Office or its branches.

Article 8. The Bank of Japan shall prepare and present to the Minister of State for Finance the daily return respecting the amount of convertible bank notes issued and exchanged, and of the reserve, as well as the weekly return stating the average amounts thereof. Moreover, the weekly return shall be published in the *Official Gazette*.

Article 9. The Minister of State for Finance shall instruct the Comptrollers for the Bank of Japan especially to supervise all matters relating to the issue of convertible bank notes; and whenever deemed necessary by the Comptrollers, they may examine the amount thereof on hand as well as the books relating thereto.

Article 10. If any convertible bank notes become unsuitable for circulation owing to defacement or mutilation, the Bank of Japan shall take them in exchange, free of charge, at its Head Office or its branches.

Article 11. All the procedures relating to the manufacture of convertible bank notes as well as the taking of spoiled notes in exchange and the cancellation thereof shall be determined by the Minister of State for Finance.

Article 12. All crimes relating to the counterfeiting and fraudulent alteration of convertible bank notes shall be dealt with in accordance with the articles relating to forged paper money provided for in the Criminal Code.

II

EMERGENCY IMPERIAL ORDINANCE SUSPENDING CONVERSION OF BANK NOTES INTO GOLD

Imperial Ordinance No. 291, *Dated, and Promulgated on, December* 17 *of the 6th Year of Showa* (1931)

The Bank of Japan may not, for the time being, convert its bank notes into gold coins except under licence granted by the Minister of State for Finance.

The Bank of Chosen may not, for the time being, exchange its bank notes for gold coins except under licence granted by the Minister of State for Finance.

The Bank of Taiwan may not, for the time being, exchange its bank notes for gold coins except under licence granted by the Minister of State for Finance.

Addendum

This Ordinance shall come into force on the day of its promulgation.

III

ORDINANCE NO. 36 OF THE MINISTRY OF FINANCE

(Concerning Restriction on the Export of Gold)

Dated, and Promulgated on, December 13 *of the* 6*th Year of Showa* (1931)

Any person intending to export gold coins or gold bullion shall obtain the licence therefor from the Minister of State for Finance.

Any person violating the provision of the preceding paragraph shall be punished by penal servitude for a term not exceeding three months or a fine not exceeding 100 yen.

Any person collecting, melting, or mutilating gold coins with the intention of selling or using the same as bullion shall likewise be liable to the penalty prescribed in the preceding paragraph.

Addendum

This Ordinance shall come into force on the day of its promulgation.

IV

LAW CONCERNING GOVERNMENT ACCOUNTING

(Excerpts)

Law No. 42 Dated April 7 of the 10th Year of Taisho (1921)

Article 5. The Government shall entrust the Bank of Japan with the management of the affairs relating to the receipts and payments of Treasury funds.

The Treasury funds received by the Bank of Japan pursuant to the provision of the preceding paragraph shall be deposited with the Bank as prescribed by Orders.

Article 6. The Government is empowered, when deemed necessary for meeting requirements on the funds of the Treasury, to issue Treasury bills or to borrow of the Bank of Japan.

(Paragraphs 2 and 3 omitted.)

Article 15. Whenever a Minister of State has to make payments out of the funds assigned to his charge, he shall, instead of paying out in cash, draw cheques upon the Bank of Japan, provided that he may authorise other officials to draw such cheques.

Article 18. A Minister of State may deliver to the Bank of Japan the funds required for the payment of principal and interest in respect of Government loans to be effected by the Bank pursuant to his orders.

Article 40. The Government is empowered to order the Bank of Japan to undertake the management of the securities owned or held by the Government.

Article 41. The Bank of Japan shall be subject to examination by the Board of Audit in respect of the accounts relating to the receipts and payments of Treasury funds, the proceeds of the Government loan issues handled by the Bank, the funds delivered to the Bank pursuant to the provision of Article 18 and to the movements of the securities handled by the Bank pursuant to the provision of the preceding Article.

V

LAW CONCERNING GOVERNMENT LOANS

(Excerpt)

Law No. 44 Dated April 7 of the 10th Year of Taisho (1921)

Article 1. The Minister of State for Finance shall prescribe the regulations relating to the raising of Government loans, the redemption of principal of, and the payment of interest on, such loans, the bonds and other evidences of Government indebtedness and their registration, and he shall entrust the Bank of Japan with the management of the affairs pertaining thereto.

VI

LAW CONCERNING THE SPECIAL ADVANCES BY THE BANK OF JAPAN AND THE GOVERNMENT INDEMNITY

Law No. 55 Dated, and Promulgated on, May 9 of the 2nd Year of Showa (1927)

Article 1. The Bank of Japan may, upon applications by banks which are not actually suspending payments on deposits for accommodation of funds required in providing for payments of deposits (including instalment savings deposits), and where deemed necessary for the financial stability of the country, make to such banks by means of discounting bills the special advances as prescribed by the Minister of State for Finance.

The provision of the preceding paragraph shall apply in the case of banks which are actually suspending payments on deposits, but which are considered capable of resuming business in the future.

In making the special advances prescribed in the preceding two paragraphs the Bank of Japan shall be required to submit the matter for the deliberation of the Committee of Investigation on the Special Advances.

The organisation and authority of the Committee of Investigation on the Special Advances shall be determined by an Imperial Ordinance.

Article 2. The term during which the Bank of Japan may discount bills for the purpose of the special advances prescribed in the preceding Article shall be one year reckoning from the date of coming into force of this Law.

Article 3. The term of making special advances by means of discounting the bills drawn in renewal of the bills that had been discounted for the purpose of the special advances provided for in Article 1 may not exceed ten years reckoning from the date of coming into force of this Law.

Article 4. In case the Bank of Japan incurs losses in connection with the special advances made pursuant to this Law the Government is empowered to undertake to indemnify the Bank of Japan for such losses to the extent of 500 million yen.

The criteria by which the losses specified in the preceding

paragraph are determined shall be fixed by the Minister of State for Finance.

Article 5. The losses, and their amounts, incurred by the Bank of Japan in connection with the special advances made pursuant to this Law shall be determined by the Committee of Investigation on the Losses from the Special Advances.

The organisation and authority of the Committee of Investigation on the losses from the special advances shall be determined by an Imperial Ordinance.

Article 6. The indemnity to be paid to the Bank of Japan by the Government pursuant to the undertaking mentioned in Article 4, paragraph 1, may be delivered in the form of 5 per cent. Government bonds.

Article 7. The Government may issue bonds to the amount required for the delivery to be made pursuant to the provision of the preceding Article.

Article 8. The delivery price of the Government bonds to be delivered pursuant to this Law shall be fixed by the Minister of State for Finance, taking into consideration the current market prices.

Addenda

This Law shall come into force on the day of its promulgation.

Of the advances made by the Bank of Japan by discounting bills between April 22 of the 2nd year of Showa (1927) and the day immediately preceding the date of coming into force of this Law, those corresponding to the special advances under Article 1 shall be considered as the special advances under Article 1.

VII

ORDINANCE NO. 12 OF THE MINISTRY OF FINANCE

Dated, and Promulgated on, May 9 of the 2nd Year of Showa (1927)

Regulations Relating to the Special Advances Prescribed in Article 1 *of the Law Concerning the Special Advances by the Bank of Japan and the Government Indemnity*

Article 1. In making the special advances the Bank of Japan shall be required to submit the matter for the deliberation of the Committee of Investigation on the Special Advances pursuant to the provisions of this Ordinance.

Article 2. The Bank of Japan may, in discounting bills for the purpose of the special advances, accept as collaterals securities, and claims secured by real estates or by specified estates legally constituted.

The Bank of Japan may, where deemed especially necessary, discount, with the approval of the Minister of State for Finance, bills secured by collaterals other than those specified in the preceding paragraph.

Article 3. The rate of discount to be applied by the Bank of Japan to the special advances shall be in accordance with the rate of interest charged on loans secured by Government bonds.

The Bank of Japan may apply a higher rate of discount in respect of renewal bills relating to the special advances should the condition of the banks to which the special advances have been made render such a procedure necessary in order to hasten the recovery of the funds advanced.

Article 4. The Bank of Japan shall report to the Minister of State for Finance the particulars of the bills discounted for the purpose of the special advances.

Article 5. The Bank of Japan shall enter into agreement with the banks to which the special advances have been made, enabling the Bank to examine whenever deemed necessary the condition and operations of such banks.

The Bank of Japan shall report to the Minister of State for Finance on the results of the examinations undertaken in accordance with the agreement provided for in the preceding paragraph.

Article 6. The Bank of Japan shall enter into agreement with the banks to which the special advances have been made, whereby the Bank may cause such banks to produce to it, in duplicates, at least once a month, their daily statement of accounts and such other documents as the Bank may require.

The Bank of Japan shall submit to the Minister of State for Finance a copy of each of the documents received in accordance with the agreement provided for in the preceding paragraph.

Article 7. With respect to the special advances having as collaterals claims secured by real estates or by specified estates legally constituted, the Bank of Japan may entrust the Hypothec Bank of Japan Limited, the Agricultural and Industrial Banks, the Hokkaido Colonial Bank Limited or the Industrial Bank of Japan Limited with the handling of the business pertaining thereto.

With respect to the special advances to banks in Chosen, the Kwantung Province, and the South Manchuria Railway Zone other than the Bank of Chosen, the Bank of Japan may have the Bank of Chosen transact on its behalf the business pertaining thereto.

With respect to the special advances to banks in Taiwan other than the Bank of Taiwan Limited, the Bank of Japan may have the Bank of Taiwan Limited transact on its behalf the business pertaining thereto.

With respect to the special advances to banks in Karafuto other than the Hokkaido Colonial Bank Limited, the Bank of Japan may have the Hokkaido Colonial Bank Limited transact on its behalf the business pertaining thereto.

Article 8. With regard to the special advances the Minister of State for Finance shall give directions for cases not provided for in this Ordinance.

Addendum

This Ordinance shall come into force on the day of its promulgation.

THE YOKOHAMA SPECIE BANK LIMITED

Yokohama Specie Bank Regulations and Notification Annexed

October 1923

Whereas the Yokohama Specie Bank Regulations (Imperial Ordinance No. 29) were promulgated on the 6th day of the 7th month, 20th year of Meiji (July 6, 1887), as per Schedule " A " hereunto annexed; and whereas Notification No. 3,675 of the Minister of State for Finance was issued on the 9th day of the month and year aforesaid, as per Schedule " B " hereunto annexed: By Special Resolutions duly passed at an Extraordinary General Meeting of Shareholders of the Yokohama Specie Bank, convened on the 30th day of the month and year aforesaid, the following Articles of Association were adopted in place of the Articles of Association previously in force.

ARTICLES OF ASSOCIATION OF THE YOKOHAMA SPECIE BANK LIMITED

THE NAME OF BANK

Article 1. The name of the Bank is Yokohama Shokin Ginko, and in English The Yokohama Specie Bank Limited.

DURATION OF THE ASSOCIATION

Article 2. The business term of the Bank is fixed from the 28th day of the 2nd month of the 13th Year of Meiji (February 28, 1880) to the 27th day of the 2nd month of the 59th Year of Taisho (February 27, 1970). At its expiration, the term may again be extended for a given number of years by the decision of a General Meeting of Shareholders and with the sanction of the Minister of State for Finance.

LIABILITIES OF SHAREHOLDERS

Article 3. The Bank is one of limited liability, and the liability of shareholders for the debts of the Bank is limited to the subscribed amount of the shares respectively held by them. Subscribers to new shares, not fully paid up, shall, in addition to the amount paid thereon, be liable to the amount remaining unpaid.

CAPITAL AND SHARES

Article 4. The capital of the Bank is 100 million yen divided into 1 million shares of 100 yen each.

Article 5. If, owing to the state of business, an increase or reduction of the capital of the Bank be deemed expedient, such increase or reduction may be effected by a Special Resolution passed at a General Meeting of Shareholders and sanctioned by the Minister of State for Finance, and such increase or reduction shall be apportioned among the shareholders according to the number of shares held by them. In case of increase, however, new shareholders may be invited to subscribe.

Article 6. Japanese subjects only may, in accordance with the Yokohama Specie Bank Regulations, the Articles of Association, and the resolutions passed at General Meetings of Shareholders, own shares of the Bank and may become shareholders thereof.

Article 7. In case a single share is owned by two or more persons, one of their number shall be named as their representative.

Article 8. In case shares are owned by corporations, firms, or associations, one of the members of such body shall be appointed as its representative and such body shall be bound by his acts.

Article 9. The shares of the Bank shall be represented by certificates bearing the holders' names, in three different kinds, each representing one, ten, and 100 shares. The certificates representing the same issue may be changed into those of different numbers of shares upon the request of the shareholders.

Article 10. With the exception of those already issued, the share certificates of the Bank shall bear on the face thereof the seal of the Bank, the signatures of the President and Manager, and the following particulars :

(1) The serial number and amount subscribed.
(2) The name of the bank.
(3) The dates of registration of the formation of the bank and of the increase of capital.
(4) The total amount of the capital.
(5) The amount of each share.
(6) The date of issue.
(7) The name of the holders.

When payment is called on shares not fully paid up, the amount of each payment made upon such shares shall at the time of each payment be duly inserted in the certificates.

Article 11. The Bank shall keep a Register of Shareholders, and the following particulars shall be entered therein :

(1) The names and domiciles of the shareholders.
(2) The serial number of the certificates and number of shares held by each shareholder.
(3) The amount paid upon each share and the date of each payment.
(4) The date when each shareholder acquired the right thereto.

Article 12. The sanction of the Bank must be obtained for every transfer of shares. Such sanction may be obtained by presenting share certificates endorsed with the signatures and seals of the transferors and transferees, accompanied by an application for transfer, and in case of transmission by death, by gift, or by the operation of law, the endorsement of the signature and seal of the assigns or successors, accompanied by a formal statement of the fact, shall be required. In case of transmission by death or by gift the application must bear the signatures and seals of at least two

relatives, or in the absence of the relatives, two sureties of the assigns or successors.

Article 13. Should a shareholder change his name, or should any change occur either in the names or in the capacity of the representative shareholders for corporations, firms, or associations, due notice of such a fact must be given to the Bank for registration, accompanied by a formal statement of the fact.

Article 14. When the transfer of shares is sanctioned by the Bank, the President and Manager thereof shall affix their signatures and seals on the new share certificates, and such transfer, together with the name and domicile of the new shareholders, shall be entered in the Register of Shareholders. When any alteration in the names of shareholders is accepted by the Bank, due entry thereof shall be made in the Register of Shareholders. No transfer or alteration shall be recognised by the Bank unless the steps prescribed herein are observed.

Article 15. Upon due notification and at the discretion of the Board of Directors the registration of transfer of shares may be stopped for a period not exceeding twenty days, when the half-yearly accounts are made up, or when an increase or reduction of the capital is to be effected, or when any call for payment upon shares has been made.

Article 16. In the event of the defacement or mutilation of share certificates, the holders of the same may apply to the Bank for the issue of fresh certificates, by presenting such share certificates, together with a statement of the cause of such defacement or mutilation, giving the serial numbers, subscribed amount, and denomination of them.

The Bank will issue fresh certificates if it recognises after investigation the necessity for such issue ; in the event of doubt as to the genuineness of such share certificates the case should be dealt with in accordance with the following article.

Article 17. In the event of the loss or destruction of share certificates, the holders thereof may apply to the Bank for fresh certificates by presenting a declaration giving the facts and reasons of such loss or destruction, together with a statement of serial numbers, subscribed amounts, and denomination of such certificates. The declaration must be countersigned by two or more sureties who are acceptable to the Bank. In every such case, the Bank shall publicly notify the facts of such loss or destruction for a period of one week at the expense of the applicants, and if the lost certificates be not discovered, and in the event of no objection being entered within the period of three months from the date of such notification, the Bank shall issue fresh certificates. If, however, the applicants should discover the lost certificates within such period, the fact must be immediately notified to the Bank. In every such case the Bank shall publicly notify the fact of such discovery in manner hereinbefore mentioned. Should any objection be raised to issuing fresh certificates the Bank shall not issue them unless duly authorised to

do so by the decision of a court of law. In issuing fresh certificates the Bank may require the applicants to give security therefor.

Article 18. Any person requiring the registration of transfer of shares or the issue of fresh certificates must pay the fees fixed by the Board of Directors.

Article 19. In case a shareholder is incapacitated, the person exercising parental authority, a guardian, or legal representative for such shareholder shall notify the fact to the Bank by a written statement duly signed and sealed by two or more relatives, or, in absence of the relatives, sureties. A formal statement of the fact of the incapacity and the authority of such a party shall be attached to such notice.

Article 20. All shareholders shall notify their domiciles to the Bank and shall provide the Bank with a facsimile of their seals.

This rule also applies to changes in domiciles or seals. The necessary steps must be taken to prove the genuineness of such seals if required by the Bank.

Head Office, Branches, Agencies, Sub-Branches, Sub-Agencies and Sub-Offices

Article 21. The Head Office of the Bank shall be situated at Yokohama.

Article 22. Branch offices shall be maintained in the following places, and in such other places as may be decided upon at a General Meeting of Shareholders :

Inland

Kobe
Nagasaki
Nagoya
Tokyo
Osaka
Moji

Overseas

London, England
San Francisco, U.S.A.
Honolulu, Territory of Hawaii
Shanghai, Republic of China
Bombay, India
Hongkong
Tientsin, Republic of China
Yinkow, Manchoukuo
Peiping, Republic of China
Dairen, Kwantung Leased Territory
Fengtien, Manchoukuo
Hankow, Republic of China
New York, U.S.A.
Seattle, U.S.A.
Rio de Janeiro, Brazil
Calcutta, India
Rangoon, Burma
Singapore, Straits Settlements
Batavia, Java
Sourabaya, Java
Sydney, Australia
Manila, Philippine Islands
Tsingtao, Republic of China
Hsinking, Manchoukuo
Harbin, Manchoukuo
Hamburg, Germany
Paris, France

Article 23. Agencies, sub-branches, sub-agencies and sub-offices of the Bank shall be established in such places as may be designated by the Board of Directors.

President, Vice-President, Directors, and Auditors

Article 24. The number of Directors shall not be less than five, and the number of Auditors shall not be more than four. The number of Directors and Auditors shall be decided, and they shall be elected, at an Ordinary General Meeting of Shareholders to be held annually in the month of March, from among shareholders holding more than fifty shares. The election of the Directors shall be sanctioned by the Minister of State for Finance. The term of Office of Directors and Auditors shall be one year, and they shall be eligible for re-election at the expiration of their term of office. The Directors shall, during their term of office, deposit with the Auditors fifty shares owned by them as security for the faithful performance of their duties. The Auditors shall not return the shares thus deposited until the expiration of six months after the Directors have ceased to remain in office.

Article 25. The Directors and Auditors shall, after the expiration of their term of office, continue in the performance of their duties until the newly-elected Directors and Auditors enter upon their duties.

Article 26. No shareholder who has been declared bankrupt and has not fully discharged his debts shall be eligible as a Director or Auditor, notwithstanding he may be a shareholder of more than fifty shares.

Article 27. Vacancies arising in the office of a Director or an Auditor, from resignation, death, retirement, or removal, shall be filled at an Extraordinary General Meeting of Shareholders.

Every Director or Auditor so appointed shall hold office only for the remainder of the term for which the previous Director or Auditor would have held his office. No election shall, however, be necessary so long as there are five Directors and one Auditor remaining in office, provided their number be deemed sufficient for the due performance of their duties.

Article 28. In case a majority of votes cannot be obtained at the election of Directors or Auditors, double the required number to be elected for the offices shall be first chosen from among those who have obtained the largest number of votes, and those of the number who have obtained a majority of votes shall be appointed.

If, however, the votes thus obtained are found to be equal, the election shall be finally determined by lots drawn among those persons who obtained an equal number of votes.

Article 29. Any Director or Auditor who has during his tenure of office committed any of the acts mentioned in paragraph 1, Article 43, or in paragraph 4, Article 44 hereof, may be removed by a resolution of a General Meeting of Shareholders.

Any Director or Auditor shall be considered to have resigned whenever he becomes a person of incapacity or quasi-incapacity or is declared bankrupt.

If any Director is absent from the meetings of the Board of

Directors during a period of three months without special leave of absence from them he shall be deemed as having resigned his office.

Article 30. The Board of Directors shall control all the business of the Bank in accordance with the Yokohama Specie Bank Regulations, the Articles of Association, the By-laws of the Bank, and the resolution of the General Meetings of Shareholders.

The Board of Directors shall also have the following powers:

(1) To elect the President and Vice-President of the Bank from among the Directors.

(2) To appoint and dismiss managers and other officers and employees of the Bank, to prescribe their duties, to despatch them to places at home or abroad, and to fix the security required from them.

(3) To fix the salaries, allowances, remunerations, travelling expenses, and pensions for the officers and employees of the Bank.

(4) To fix the bonuses of managers, officers and employees.

(5) To prepare a half-yearly report, consisting of inventory, balance sheet of assets and liabilities, résumé of the business of the Bank, profit and loss account, and the dividends to be declared, to be submitted to Ordinary General Meetings, in accordance with the Articles of Association.

(6) To determine the manner in which the bonuses fixed by Article 93 hereof are to be distributed.

(7) To determine the mode of electing the succeeding Directors and Auditors, and to choose Arbitrators in case any dispute arises in respect of such election.

(8) To prescribe the By-laws and other Regulations of the Head Office, Branches, Agencies, Sub-Branches, Sub-Agencies, and Sub-Offices.

(9) To open or close Agencies, Sub-Branches, Sub-Agencies, and Sub-Offices in Japan or abroad.

(10) To settle or change locations of the Head Office, Branches, Agencies, Sub-Branches, Sub-Agencies, and Sub-Offices.

(11) To convene General Meetings of Shareholders.

(12) To refer any dispute by or against the Bank to arbitration and to carry out the awards.

(13) To buy, rent, or hire any land, buildings, and other property necessary for the business of the Bank, and to erect or repair such buildings or property, and to sell, transfer, or remove any such property when no longer required.

(14) To enter into contracts for lending or borrowing money, and to make all other kinds of agreements appertaining to the business of the Bank.

(15) To enter into correspondence and contracts concerning the business of the Bank with banks and corporate bodies as well as with individual persons both Japanese and foreign.

(16) To extend, reduce, or release debts or other liabilities owing to the Bank.

(17) To institute, defend, amicably settle, or abandon any legal proceedings by or against the Bank.

(18) To invest the capital of the Bank and any of the moneys received by the Bank in public bonds, bullion, or other sound securities.

(19) To pay the debts and other just claims against the Bank.

(20) To use the seal of the Bank, or to delegate the power to use the same to the president, manager, or any other officials of the bank.

(21) To authorise branches and agencies abroad to issue notes payable to bearer on demand when deemed expedient or necessary for the business of the Bank.

Article 31. One or more Directors may attend to any matters that properly belong to the functions of the president or vice-president, when they do not discharge them or are prevented from doing so on account of legal obstacles.

The Board of Directors may decide matters other than those specified in Article 30 hereof, in such manner as they may consider most conducive to the interests of the Bank, unless specially prohibited by the provisions of the Yokohama Specie Bank Regulations or these Articles of Association.

The Board of Directors may delegate to the president, managers, and other officials the power to attend to such matters specified in the preceding Article appertaining to the ordinary daily business of the Bank.

Article 32. In case one-half or more of the capital of the Bank be lost, or the Minister of State for Finance order the Bank to suspend its business, the Board of Directors shall immediately convene an Extraordinary General Meeting of Shareholders and shall submit the report thereof to the meeting so convened.

When the first payment is made on new shares issued on the increase of the capital, an Extraordinary General Meeting shall likewise be called, except in cases where a previous General Meeting of Shareholders has resolved to adopt some other course to report the fact.

Article 33. The Directors shall submit to Ordinary General Meetings of Shareholders the documents mentioned in (5), Article 30 hereof.

In such a case the Directors shall first submit the documents to the Auditors, and these documents, together with the report of the

Auditors thereon, shall be filed at the Head Office prior to the day appointed for the Ordinary General Meeting of Shareholders.

Article 34. The Board of Directors shall keep the Articles of Association and Minutes of General Meetings of Shareholders at both the Head and Branch offices.

The Board of Directors shall settle the procedure of the meetings of the Board and keep minutes of such meetings.

The Board of Directors shall hold regular meetings once a week, and also special meetings whenever necessary, to discuss the business of the Bank. The minutes of such meetings shall be entered in the books provided for the purpose, and the same shall be signed and sealed by the chairman of the meetings. The regular meeting may be withheld according to the state of business.

The President shall be chairman of the meetings of the Directors; if both the President and Vice-President are absent, the Directors shall choose one of their number as chairman of such meeting.

Article 35. No meeting of the Board of Directors shall be held unless there be present at least one-half the number of the Directors residing in Japan.

Questions arising at the meeting of the Board of Directors shall be decided by a majority of votes, and in case of a tie the chairman shall have a casting vote.

No Directors shall have the right to vote on questions affecting themselves personally.

Article 36. The Board of Directors shall have the right to entrust any member or members of the Board with authority to conduct any business of the Bank and also to rescind any such authority so entrusted, and any member or members of the Directorate receiving such authority shall be entitled to such remuneration as may be fixed by the Board.

In the case of a Director being appointed to act as a manager, in accordance with the preceding clause, such appointment must receive the sanction of the Minister of State for Finance.

Article 37. There shall be one President and one Vice-President, who shall be elected from among the Directors, and they shall enter upon their duties after their appointment is approved by the Minister of State for Finance.

Their terms of office shall be one year, and they shall be eligible for re-election. The office of President and Vice-President shall be considered as vacant if, during the term of their service, they resign or cease to be Directors, or the Minister of State for Finance order a new election of Directors.

They may be removed at any time by the resolution of the Board of Directors, passed by a two-thirds majority, and with the sanction of the Minister of State for Finance.

The office of Vice-President may be left vacant if the Board of Directors, considering the state of business, do not think it necessary to fill that office. The President or Vice-President shall, after the

expiration of his term of office, remain in office until the newly elected President or Vice-President enter upon his duties.

Article 38. In case the office of the President of the Bank is filled by the Vice-Governor of the Bank of Japan by the order of the Minister of State for Finance, in accordance with Article 16 of the Yokohama Specie Bank Regulations, his term of office shall be determined by the Minister of State for Finance.

Article 39. The President shall represent the Bank and shall have the direction of all the business of the Bank subject to the Yokohama Specie Bank Regulations, the Articles of Association, the By-laws of the Bank, and the Resolutions of the Board of Directors and of General Meetings of Shareholders; and he shall also have the following powers:

(1) To preside as chairman and to vote as director at the meetings of the Board of Directors.
(2) To preside as chairman at the General Meetings of Shareholders.
(3) To execute in his official name as President of the Bank all matters resolved upon at the meetings of the Board of Directors as well as at the General Meetings of Shareholders.
(4) To institute legal proceedings; to enter into contracts; to grant powers of attorney; to present to the Government applications, questions, and reports; and to sign and seal, endorse, and accept documents, drafts, and other written instruments in his official name as President of the Bank.
(5) To delegate, in case of necessity, to the officials of the Bank the powers mentioned in (4) of this Article.
(6) To sign and seal newly issued share certificates or receipts for moneys paid thereon, and to endorse on share certificates the confirmation of sales or transfers.
(7) To execute at his discretion, in case of urgency, all matters which require a Resolution of the Board of Directors. Actions thus taken shall be reported to the next meeting of the Board of Directors.
(8) To delegate his powers to any one of the Directors in case of absence through illness, travel, or any other cause.
(9) To convene Extraordinary Meetings of the Board of Directors. Notices of such meetings shall be sent to each Director at least one day previous to the date fixed for holding the same.
(10) To instruct the managers and other officers in the discharge of their duties.

Article 40. The President shall, at the meetings of the Board of Directors, make reports on all matters concerning the business of the Bank, and he shall give his view in respect thereof.

Article 41. The Vice-President shall always assist the President in the discharge of his functions, and act for the President in case of his absence.

Article 42. The President shall not engage in any other business nor hold any office in other banks, companies, or firms, except that of Director of the Bank of Japan, by the order of the Minister of State for Finance in accordance with Article 16 of the Yokohama Specie Bank Regulations.

Article 43. The President, Vice-President, and Directors shall be personally responsible for any losses arising from their wilful acts or any breach of the Yokohama Specie Bank Regulations, the Articles of Association, the By-laws of the Bank, or of a Resolution of a General Meeting of Shareholders. The President and Vice-President shall personally be responsible for any losses arising from their failure to comply with the decisions of the Board of Directors. The fines imposed in accordance with Article 27 of the Yokohama Specie Bank Regulations shall in no case release them from such responsibility.

The President, Vice-President, and Directors shall not be held responsible for losses arising from acts done in good faith.

Article 44. The functions and powers of the Auditors are as follows :

(1) To keep in their custody the share certificates deposited by the Directors as security for the due performance of their duties ; to see if the execution of the business affairs of the Bank by the President, Vice-President and Directors be in accordance with the Yokohama Specie Bank Regulations, the Articles of Association, and the Resolutions of the General Meetings of Shareholders ; to examine the documents which are to be submitted to a General Meeting of Shareholders by the Directors, and to make a report thereon to the Meeting, and to submit them to the Directors prior to the day appointed for the General Meeting of Shareholders.

(2) In the case of an increase of capital, the Auditors shall inquire whether the entire number of new shares has been taken up and whether first payment thereon has been made, and shall submit a report thereof to the General Meeting of Shareholders.

(3) To call upon the Directors at any time to give information about the business of the Bank, or to inquire into the affairs of the Bank and the state of its assets, and to express their opinion thereon at the meeting of the Board of Directors whenever they consider such a course necessary.

(4) To call a General Meeting of Shareholders, whenever they consider it necessary.

The Auditors shall have the right to appoint from among their number not more than two to attend to current

auditorial work, and an Auditor or Auditors receiving such appointment shall be entitled to the remuneration authorised by a resolution of a General Meeting of Shareholders.

No Auditor shall be a Director or Manager of the Bank.

The Auditor is personally responsible to the Bank for any damage caused by the neglect of his duties.

Article 45. The President and Vice-President shall be entitled to receive the salaries fixed by the Board of Directors.

The President, Vice-President, Directors and Auditors shall be entitled to receive bonuses prescribed by Article 93 hereof, and the amount payable to each shall be fixed by the Board of Directors.

A Director who fills the office of a manager of the Bank shall not be entitled to receive the salary and bonuses as manager.

The President and Vice-President shall not be entitled to receive bonuses as Directors.

General Meeting of Shareholders

Article 46. Every General Meeting of the Shareholders of the Bank shall represent the whole body of shareholders, and all resolutions passed at General Meetings, in accordance with the Yokohama Specie Bank Regulations and the Articles of Association, shall be binding on absent shareholders and on those who vote against such resolutions.

Article 47. General Meetings of Shareholders are of two kinds, namely Ordinary General Meetings and Extraordinary General Meetings. Ordinary General Meetings shall be convened by the Board of Directors twice a year in the months of March and September, and Extraordinary General Meetings shall be convened either by the Board of Directors or by the Auditors whenever they consider it necessary, or whenever the shareholders representing at least one-tenth of the capital make requisition to that effect.

Article 48. After the place, date, and hour of holding any General Meeting is fixed, those persons who have convened the meeting shall have power to change the place, date, and hour of such General Meeting if necessary, but any such change must as soon as possible be notified to the shareholders.

Article 49. In case the shareholders representing at least one-tenth of the capital present a requisition in writing to call an Extraordinary General Meeting, specifying the object and reason for the same, the Board of Directors shall immediately take the necessary steps to call an Extraordinary General Meeting.

In case the Board of Directors does not proceed to call such meeting within two weeks after such request is made, the shareholders who have presented the requisition may themselves convene the meeting.

Article 50. The business of an Ordinary General Meeting of Shareholders shall be as follows :

(1) To receive and consider the report of the Board of Directors upon all important matters relating to the business of the Bank.

(2) To submit to the Meeting and to obtain the approval of the Inventory, Balance Sheet, Report on the Business and Profit and Loss Account for the preceding half-year, together with the report of the Auditors thereon.

(3) To resolve upon the distribution of profits.

(4) To elect Directors and Auditors annually at the Ordinary General Meeting of Shareholders held in the month of March.

Article 51. The business of an Extraordinary General Meeting of Shareholders shall be as follows:

(1) To resolve upon the increase or reduction of the capital, the amalgamation of the Bank with another institution, or an extension of the term of the Bank's existence.

(2) To resolve upon the voluntary winding-up of the Bank.

(3) To resolve upon any alteration in the Articles of Association.

(4) To resolve upon the removal of Directors or Auditors on account of acts mentioned in Article 29 hereof.

(5) To elect Directors in place of those removed by the order of the Minister of State for Finance, or Directors or Auditors where their removal has been resolved upon as mentioned in the preceding clause or in the event of the above offices being vacant.

(6) To resolve upon the opening or closing of branches.

(7) To make announcements as provided in Article 23 and (2) Article 44 hereof.

(8) Besides those above mentioned, to pass resolutions or to report upon other matters of urgent importance which may occur.

Article 52. Two weeks' previous notice of any General Meeting shall be given to each shareholder, who has been a shareholder of the Bank for at least sixty days preceding the date of such meeting, and every such notice shall specify the place, day and hour of the meeting and the object thereof.

Article 53. The Resolutions passed at any General Meeting notified and convened as provided in the preceding Article shall be valid, although some shareholders may not have received such notice or may have been absent for want of sufficient time.

Article 54. Such notice shall be signed by those persons who convene the meeting. If it be convened by the Board of Directors,

the notice shall be signed by the President or such other person as may be appointed for the purpose by the Board of Directors.

Article 55. No business shall be discussed at a General Meeting of Shareholders other than that previously notified to the shareholders as the object of the meeting.

Article 56. A General Meeting may be attended by the shareholders personally or by proxy. Proxies, however, shall be those shareholders who have the right to vote and hold powers of attorney for such proxies.

Article 57. No shareholder who is an officer or employee of the Bank, or who has deposited his shares with the Bank as security for his own debt or for the debt of others, shall act as proxy.

Article 58. No Extraordinary General Meeting convened for the purposes mentioned in (1), (2), (3) and (4), Article 51 hereof shall be competent to open discussion unless there be present, personally or by proxy, at least one-half of the whole number of the shareholders, representing in the aggregate at least one-half of the total amount of the capital.

No General Meeting, except in the cases mentioned in the preceding clause, shall be commenced, unless there be present, personally or by proxy, not less than one-fifth of the whole number of the shareholders representing in the aggregate not less than one-half the total amount of the capital. This rule does not apply to the case of reporting upon or discussing the matters mentioned in (1), (2) and (3), Article 50, Article 32, and (2) Article 44 hereof.

Article 59. If within one hour after the time appointed for holding a General Meeting there is no quorum present as prescribed by the preceding Article, such meeting shall stand adjourned, provided that matters other than those mentioned in (1) and (2) Article 51 hereof may provisionally be resolved upon by a majority of the votes of the shareholders present.

When a General Meeting is so adjourned, those persons who convened the meeting shall give notice to the shareholders of the place, day and hour of such adjourned meeting, and the date so appointed shall be within one month from the date of the adjournment. In case a General Meeting has passed provisional resolutions the chairman of such meeting shall communicate to each shareholder the text of such resolutions and shall convene another General Meeting in not less than one month from the date of such meeting, and this second meeting of shareholders shall decide by a majority of the voting power of those present whether the provisional resolutions be adopted or not.

Article 60. In case the business to be transacted at a General Meeting is not finished, the chairman may adjourn the meeting to such place, day and hour as he may at the time appoint. No notice of any such adjournment need be sent to the shareholders.

Article 61. The President of the Bank shall be chairman of all General Meetings.

Article 62. If the requisite quorum is present and both the President and Vice-President remain absent for fifteen minutes after the time appointed for holding the meeting, or if, being present, they both decline to take the chair, the shareholders present shall choose one of the Directors as chairman ; and in case the Directors are all absent or decline to take the chair, the shareholders shall choose a chairman from among their number.

Article 63. No General Meeting shall be competent to pass resolutions upon the matters mentioned in (1) and (2) Article 51 hereof, unless with the concurrence of at least two-thirds, and, for all other matters, a majority of the votes of those present at the meeting. In case of a tie, the chairman shall have the casting vote. In such a case the chairman has the option to vote as a shareholder.

Article 64. All resolutions carried at a General Meeting shall be entered in the minutes of the meeting, and the chairman of the meeting shall sign and seal the same.

Votes of Shareholders

Article 65. Any person who has been a shareholder for sixty days preceding the day of the General Meeting, the day of such General Meeting being included, shall have one vote for every share up to ten shares held by him ; and he shall have one vote for every five shares exceeding ten shares and not exceeding 100 shares, and one vote for every ten shares exceeding 100 shares.

The holders of new shares shall have the same voting power as holders of old shares.

Article 66. No person is entitled to be present or to vote at a General Meeting unless he has been a shareholder for at least sixty days preceding the meeting, the day of such General Meeting being included.

Article 67. If a shareholder is prevented from voting on account of incapacity, the person exercising parental authority, his legal representative, or his guardian may vote on his behalf.

Article 68. The votes for shares held by corporations, firms, or associations shall belong to the representatives thereof whose names are entered for the purpose in the register of shares.

Article 69. Every question submitted to a General Meeting shall be decided by a poll, but in the absence of objection on the part of the shareholders present the chairman may have recourse to standing votes or some other means.

The Business of the Bank

Article 70. The Bank shall carry on in Japan and in foreign countries the following transactions :

(1) To deal in foreign bills with or without documents.

(2) To deal in inland bills with or without documents.

(3) To lend or advance money.

(4) To receive deposits of money or valuables for safe custody.

(5) To discount, buy and sell bills of exchange, promissory notes, and other negotiable instruments.

(6) To exchange coins or moneys.

(7) To collect the payments of bills of exchange, promissory notes, and other negotiable instruments. And banking business generally.

Article 71. The Bank may, if deemed expedient, buy or sell public bonds, bullion, and foreign coins or moneys.

Article 72. The Bank may, by the order of and on behalf of the Japanese Government, transact in Japan or in foreign countries any business relating to moneys, loans, drafts and such other matters as may be ordered by the Imperial Japanese Government.

Article 73. The Bank shall engage in no other business than that mentioned in Articles 70, 71 and 72 hereof.

Article 74. Loans prescribed in (3) of Article 70 shall not exceed the following limits in amounts, except where the sanction of the Minister of State for Finance has been obtained:

(1) One-tenth of the Bank's capital for loans to one individual person, firm, association or corporation.

(2) One-tenth of the Bank's capital and reserve fund combined for the total of loans without securities.

(3) One-twentieth of the Bank's capital and reserve fund combined for loans with securities of real property.

Article 75. *Repealed by a resolution of the Extraordinary General Meeting of the Shareholders held on March 10, 1911.*

Article 76. The Bank shall not buy or otherwise acquire any real or personal property or shares or other property (bullion, public bonds, bills of exchange or drafts, promissory notes, cheques and other securities and negotiable instruments excepted) except in the following cases:

(1) Where land, buildings and other property are necessary for carrying on the business of the Bank.

(2) Where land, buildings, shares and other property have been transferred or sold to the Bank by the debtors or sureties, or lenders of the securities, for repayment of debts to the Bank.

(3) Where securities held by the Bank are sold at auction.

Article 77. No shares of the Bank shall be bought or taken as security.

This rule, however, does not apply to cases where debtors fail to pay their debts and no other securities or means exist for recovering such debts.

Article 78. All real and personal property, shares, and other property bought or taken under (2) and (3) Article 76 and the proviso of Article 77 hereof, shall be sold within ten months after the same comes into the possession of the Bank, but if there be no buyer or the price offered be deemed inadequate by the Board of Directors, such sale may be deferred with the sanction of the Minister of State for Finance.

Article 79. Applications, questions, and reports to Government offices, contracts, guarantees, powers of attorney, reports, and papers connected with legal proceedings, and other important documents shall bear the seal of the Bank and shall be signed at the Head Office by the President of the Bank ; at a branch by the manager, and at an agency by the person in charge. If a counter-signature be required, it shall be affixed at the Head Office by one of the Directors or by the manager, and at a branch or agency by the person duly authorised of that purpose.

Article 80. The signing, sealing, endorsing, accepting, etc., of bills of exchange, promissory notes, cheques and other papers shall be made at the Head Office by the President or the manager ; at a branch by the manager, and at an agency by the person in charge.

Article 81. Any officer of the Bank, other than the president, manager, or agent, who is specially authorised, may sign and seal, endorse and accept all papers and documents mentioned in Articles 79 and 80 hereof.

Article 82. Papers and documents mentioned in Articles 79 and 80 hereof and drawn up in a foreign language may be signed in that language by the person in charge, and according to the nature of the papers and documents, the seal of the Bank need not be affixed.

Article 83. The business hours of the Bank at the head office, branches, agencies, sub-branches, sub-agencies and sub-offices in Japan shall, except on holidays, be from 9 o'clock in the forenoon till 3 o'clock in the afternoon, and on Saturdays from 9 o'clock in the forenoon till 12 o'clock noon.

These hours may be modified for a time if deemed necessary by the Board of Directors, and previous notice thereof shall be duly published.

Article 84. The holidays observed by the Bank shall be Sundays and national holidays. If the Board of Directors deem it necessary other holidays may be observed, but in such case the sanction of the Minister of State for Finance shall be first obtained and previous notice thereof shall be published.

Article 85. The branches, agencies, sub-branches, sub-agencies and sub-offices abroad shall observe the usual office hours and holidays prescribed by the laws and customs of the country in which they are situated.

Reserve Fund Against Deposits

Article 86. The Bank shall keep in reserve a sum of money equal to at least one-fourth of the total amount of deposits payable on demand.

General Accounts and Division of Profits

Article 87. The general accounts of the Bank shall be made up twice each year. The six months from January to June inclusive, and from July to December inclusive, shall be respectively the first and second half-yearly term for general accounts. The general accounts for the first half-yearly term shall be reported by the Board of Directors at the Ordinary General Meeting of Shareholders held in September, and those for the second half-yearly term at the Ordinary General Meeting of Shareholders held in March of the following year, and the approval of the General Meetings thereon shall be obtained ; and after such approval, the balance sheet shall be published by the Directors.

Article 88. Profit and loss account and the division of profits shall be made in the following manner, namely : The amount of the net profits shall be determined by deducting from the gross profits all interest, salaries, travelling and other current expenses, and also extraordinary losses and reserve for doubtful debts and depreciation of property, and bonuses fixed by Article 53. From this net profit the different reserve funds shall be next deducted, and the balance shall be divided among the shareholders ; but a portion of it may be carried over to the following term.

Article 89. The reserve for doubtful debts is the amount set aside against those debts which the Board of Directors consider may ultimately result in loss. If any portion of such debts be afterwards recovered or secured, such amount shall be accounted for in the profits of the term during which such recovery is made or such security is obtained.

Article 90. Ten per centum at least of the net profits of every half-yearly term shall be set aside as a reserve fund. The reserve fund can only be drawn on when reserve for doubtful debts and the profits of the current term are not sufficient to cover losses or when dividends are diminished.

Article 91. Besides the reserve fund mentioned in the preceding Article, a special reserve may at any time be formed when found necessary.

Article 92. Dividends for each half-yearly term shall be payable to the shareholders whose names stand on the register of shareholders on the day when the accounts for such term are presented.

Article 93. The bonuses to the president, vice-president, directors and auditors of the Bank shall be 3 per cent. of the net profit, semi-annually, and the manner of distribution shall be decided by the Board of Directors. The amounts of the net profit shall be

determined by deducting from the gross profits all interest, salaries, travelling and other current expenses, and also extraordinary losses and reserve for doubtful debts and depreciation of property, and the balance carried down from the preceding half-yearly accounts.

Books and Accounts

Article 94. The following books shall be kept in the Bank, and there shall be entered particulars of the Bank's affairs generally as well as statements of assets and liabilities of the Bank :

(1) Cash Book.
(2) Day Book.
(3) General Account Ledger.
(4) Share Account Ledger.

And such other books as the Board of Directors may deem necessary.

Article 95. The Bank shall present reports of its accounts as ordered by the Minister of State for Finance.

Notices, Reports, and Publication

Article 96. Not less than two weeks' previous notice of each General Meeting of Shareholders shall be given, by post or in such other manner as may seem expedient, addressed to the registered address of the shareholders. The delay or non-arrival of any notice made as aforesaid shall not affect the validity thereof.

Article 97. The reports made by the Board of Directors, Auditors, or the Chairman, and resolutions passed at an Ordinary or Extraordinary General Meeting of Shareholders shall, within one month thereafter, be sent to each shareholder.

Article 98. Any public notice by the Bank shall be published in the newspapers in which all notices are published by the local Court of Registry in whose jurisdiction the Head Office of the Bank is situated. But such notice relating only to a branch or agency in Japan shall be published in the newspapers in which notices are published by the local Court of Registry in whose jurisdiction such branch or agency is situated.

The Seal

Article 99. The official seals of the Head Office, branches and agencies shall be determined by the Board of Directors, and they may be changed at any time when the Board of Directors deem it necessary.

The Dissolution of the Bank

Article 100. The Bank may be wound up voluntarily at any time during the term fixed for its existence by a resolution passed at an

Extraordinary General Meeting in accordance with the Articles of Association and sanctioned by the Minister of State for Finance.

In such a case, the matters relating to liquidation shall be decided by a resolution at such General Meeting of Shareholders.

Article 101. Should the Minister of State for Finance order the dissolution of the Bank the affairs relating thereto shall be dealt with in accordance with the order given by him for that purpose.

Alteration and Revision of the Articles of Association

Article 102. These Articles of Association may be revised, repealed, or altered by a resolution passed at an Extraordinary General Meeting of Shareholders and sanctioned by the Minister of State for Finance.

Miscellaneous Provisions

Article 103. The provisions of Articles 12, 13, 16, 17 and 56 of these Articles of Association shall not apply to the shares held by the Imperial Household; such shares shall be dealt with according to the order of the Minister for the Imperial Household or of the Minister of State for Finance.

Article 104. The Articles of Association hitherto in force shall cease to have effect from the day the present Articles of Association are sanctioned by the Minister of State for Finance and put in force.

All matters and things that have been done under the old Articles of Association, and all rights and obligations that have arisen therefrom or thereunder, shall continue to be valid.

Article 105. The first Auditors shall be elected at the Ordinary General Meeting of Shareholders to be held in the 3rd month of the 33rd year of Meiji and the provisions of these Articles of Association relating to the Auditors shall take effect from the time of such election. Those relating to Auditors, as set forth in the old Articles of Association, shall remain in force until the first Auditors are elected.

Article 106. (*Repealed.*)

Article 107. All matters that require the sanction of the Minister of State for Finance, either under the Yokohama Specie Bank Regulations, or the present Articles of Association, or by the order of the Minister, shall not be executed without his sanction, although the same may have been resolved upon at a General Meeting of Shareholders or at a meeting of the Board of Directors.

All the provisions contained in the foregoing Articles, numbered from 1 to 107 inclusive, were resolved upon at the Extraordinary General Meeting of Shareholders convened on the 30th day of the 7th month of the 20th year of Meiji.

In witness whereof the shareholders present hereunto signed their names and affixed their seals.

Addenda

The number of shareholders present who signed and sealed hereunto were 250 in all.

The above Articles of Association were first adopted by the resolution passed at an Extraordinary General Meeting of Shareholders convened on the 30th day of the 7th month of the 20th year of Meiji (July 30, 1887), and afterwards amended by the Resolutions passed at the Extraordinary General Meeting of Shareholders convened on the 10th day of the 1st month of the 21st year (January 10, 1888), the 10th day of the 7th month of the same year (July 10, 1888), the 9th day of the 3rd month of the 22nd year (March 9, 1889), the 10th day of the 9th month of the same year (September 10, 1889), the 9th day of the 3rd month of the 28th year (March 9, 1895), the 10th day of the 3rd month of the 29th year (March 10, 1896), the 10th day of the 3rd month of the 30th year (March 10, 1897), the 10th day of the 9th month of the same year (September 10, 1897), the 9th day of the 9th month of the 32nd year (September 9, 1899), the 23rd day of the 12th month of the same year (December 23, 1899), the 10th day of the 9th month of the 34th year (September 10, 1901), the 10th day of the 9th month of the 35th year (September 10, 1902), the 10th day of the 3rd month of the 39th year (March 10, 1906), the 10th day of the 9th month of the same year (September 10, 1906), the 10th day of the 3rd month of the 41st year (March 10, 1908), the 10th day of the 9th month of the 43rd year (September 10, 1910), the 10th day of the 3rd month of the 44th year of Meiji (March 10, 1911), the 10th day of the 3rd month of the 2nd year of Taisho (March 10, 1913), the 10th day of the 5th month of the 8th year of Taisho (May 10, 1919), the 4th day of the 12th month of the same year (December 4, 1919), the 10th day of the 3rd month of the 9th year of Taisho (March 10, 1920), the 10th day of the 3rd month of the 10th year of Taisho (March 10, 1921), the 10th day of the 9th month of the same year (September 10, 1921), the 10th day of the 3rd month of the 6th year of Showa (March 10, 1931), the 9th day of the 9th month of the 8th year of Showa (September 9, 1933), and the 10th day of the 3rd month of the 9th year of Showa (March 10, 1934) respectively.

SCHEDULE A

IMPERIAL ORDINANCE No. XXIX
YOKOHAMA SPECIE BANK REGULATIONS.

We hereby give Our Sanction to the YOKOHAMA SPECIE BANK REGULATIONS, and order the same to be promulgated.

(His Imperial Majesty's Sign Manual.)
(Privy Seal.)
(Signed) COUNT ITO HIROBUMI,
Minister President of State.
COUNT MATSUGATA MASAYOSHI,
Minister of State for Finance.

Dated 6th day of 7th month of 20th year of Meiji.

Article 1. The Yokohama Specie Bank shall be a Limited Association, and the responsibility of its shareholders in respect of the liability of the Bank shall be limited to the amount represented by the shares held.

Article 2. The Yokohama Specie Bank shall have its Head Office in Yokohama, and it may maintain either branches or agencies in important commercial places both in Japan and in foreign countries; it may also enter into correspondence with other Banks, but when the Yokohama Specie Bank desires either to establish or disestablish branches or agencies, or to enter into or discontinue correspondence with foreign banks, a statement of the reasons for so doing shall be presented to the Minister of State for Finance, and his sanction obtained.

Article 3. The Yokohama Specie Bank is empowered to transact business for the full period of twenty years counting from the date of its opening, that is to say from the 25th day of the 2nd month of the 13th year of Meiji. It may, however, in pursuance of the decision of a General Meeting of Shareholders, apply for an extension of the term.

Article 4. The capital of the Yokohama Specie Bank shall be 6 million yen, divided into 60,000 shares of 100 yen each, but the Bank may in pursuance of the decision of a General Meeting of Shareholders apply for an increase or decrease of capital.

Article 5. The shares of the Yokohama Specie Bank shall not be sold or transferred to any persons other than Japanese subjects.

Article 6. The share certificates of the Yokohama Specie Bank shall be registered, and shall only be sold or transferred in the manner prescribed in the Articles of Association.

Article 8. The business of the Yokohama Specie Bank shall be of the following nature :

(1) The purchase and sale of foreign bills of exchange—credits and documentary.

(2) The purchase and sale of inland bills of exchange—credits and documentary.

(3) Loans.

(4) To receive deposits of money or valuables for safe custody.

(5) Discounting and collecting bills of exchange, promissory notes, and other negotiable instruments.

(6) Exchange of coins or moneys.

Article 8. The Yokohama Specie Bank may, if deemed expedient, purchase and sell public bonds, gold and silver bullion, and foreign coin.

Article 9. The Yokohama Specie Bank shall, when so ordered by the Japanese Government, act in all matters connected with public loans or Government moneys in foreign countries.

Article 10. The Yokohama Specie Bank shall not transact any business other than that specified in Articles 7, 8 and 9.

Article 11. The Yokohama Specie Bank shall not purchase or otherwise acquire real estate, shares, or other property, save in the following cases :

(1) Where either land or buildings are required for the business of the Bank.

(2) Where property has, in satisfaction of outstanding debts, been conveyed or sold to the Bank.

(3) Where property mortgaged to the Bank, which is sold under a decree of Court, is bought in at public auction on behalf of the Bank.

Article 12. The Yokohama Specie Bank shall not take its own shares as security, nor purchase such shares, except in cases where a debtor to the Bank is unable to give sufficient security for the debt contracted, and has no other means to pay the same.

Article 13. When the Bank acquires real estate, shares, or other property in the manner mentioned in the 2nd and 3rd sections of Article 11 and in Article 12, such properties shall be disposed of within ten months after such acquisition, but if it appear that the

sale could not be effected at a reasonable price within that period, the Bank may, by stating the facts to the Minister of State for Finance, ask for an extension of time.

Article 14. The Yokohama Specie Bank shall maintain a reserve of not less than one-fourth of the total amount of deposits payable on demand.

Article 15. The Directorate of the Yokohama Specie Bank shall consist of not less than five directors and the term of their office shall be for one year. The actual number of directors shall be fixed at a General Meeting of Shareholders, and they shall be elected from among shareholders holding not less than fifty shares, and their election shall be sanctioned by the Minister of State for Finance. In case of their re-election such sanction shall also be obtained.

Article 16. The President shall be chosen by the directors from among themselves. His election shall be sanctioned by the Minister of State for Finance. Should the Minister of State for Finance deem it necessary, he may order the Vice-Governor of the Bank of Japan to act as the President of the Yokohama Specie Bank or he may designate the President of the Yokohama Specie Bank to act as Director of the Bank of Japan. If deemed expedient, the directors may choose a vice-president from among their number, but he shall act for the President only when the latter is prevented from attending to his duties. The official powers and responsibilities of President, Vice-President and Directors shall be determined by the Articles of Association.

Article 17. The Bank shall hold Ordinary General Meetings twice a year to transact the business specified in the Articles of Association. An Extraordinary General Meeting of Shareholders for the transaction of special business may be held at any time. No shareholder shall have the right to attend a General Meeting unless he has been a registered shareholder for at least sixty days prior to the date of such meeting.

Article 18. Before any distribution of the half-yearly profits is made the rate of dividend to be declared shall be reported to the Minister of State for Finance, and his sanction obtained.

Article 19. Not less than one-tenth of the half-yearly net profits shall be set aside as a reserve for the following purposes:

(1) To make good any loss of capital.

(2) For the equalisation of dividends.

Article 20. When any debt to the Bank is overdue and unpaid, and loss on the same is inevitable, an amount equal to the estimated loss shall be set aside from the half-yearly profits to make good the deficiency.

Article 21. Should more than one-half the total capital of the Yokohama Specie Bank be absorbed by losses in business, or should there be a violation of any of the provisions of these Regulations,

and it be deemed necessary by the Minister of State for Finance, he may order to suspend or dissolve the Bank. A voluntary dissolution of the Bank may, with the approval of the Government, be effected by the decision of a General Meeting of Shareholders. At such General Meeting more than one-half the total number of shareholders, holding shares which represent in the aggregate more than one-half the entire capital of the Bank, must be present, and the decision in favour of dissolution must be carried by a majority of not less than two-thirds of the total number of votes represented at the meeting.

Article 22. The Minister of State for Finance may restrain any action of the Yokohama Specie Bank which violates the provisions of these Regulations or the Articles of Association, or which he deems dangerous, and in such cases he may also order the re-election of Directors.

Article 23. The Minister of State for Finance shall specially despatch officials to the Yokohama Specie Bank in order to inspect the actual condition of the Bank's business.

Article 24. The Yokohama Specie Bank shall, when ordered to do so, present to the Minister of State for Finance statements of its business transactions.

Article 25. The seal of the Head or of any branch office or agency shall be affixed to any important document emanating from such office or agency, but such seal is not requisite for documents written in a foreign language.

Article 26. The Yokohama Specie Bank shall from and after the 10th day of the 7th month of the 20th year of Meiji be bound by these Regulations and, with the approval of the Minister of State for Finance, the Bank shall, at a General Meeting of Shareholders, adopt new Articles of Association. The same course must be pursued in the event of the adoption of any alterations or amendments to the Articles of Association.

Article 27. Should the President, Directors, or any other official of the Yokohama Specie Bank violate the provisions of these Regulations, they shall be liable to a fine of not less than 5 yen nor more than 50 yen.

Article 28. When any amendment or alteration to these Regulations is made, the same shall be promulgated at least three months prior to the date when it takes effect.

SCHEDULE B

NOTIFICATION No. 3675

The Yokohama Specie Bank Regulations having been promulgated (Imperial Ordinance No. XXIX), the said Bank is hereby instructed by Count Matsugata Masayoshi, Minister of State for Finance, to be bound by the above-mentioned Regulations as per Article 26 thereof from and after the 10th instant and to speedily adopt new Articles of Association with the approval of the said Minister.

Until the approval of the said Minister for the new Articles of Association shall have been obtained all the business of the Bank shall be transacted in accordance with the old Articles of Association as heretofore.

9th day of the 7th month, 20th year of Meiji.

COUNT MASAYOSHI MATSUGATA,
Minister of State for Finance.

August 4, Meiji 20th Year

To his Excellency Count Masayoshi Matsugata,
The Minister of State for Finance,
Tokyo.

The Bank Seal

I respectfully beg Your Excellency to sanction the Bank's Articles of Association as per copy herewith, adopted at an Extraordinary General Meeting of the Shareholders convened on July 30 this year, it being in accordance to the Article 26 of the Yokohama Specie Bank Limited Regulation promulgated by the Imperial Ordinance No. 29 and subject to the Notification No. 3675 issued by Your Excellency's Department.

HARA ROKURO (Seal),
President The Yokohama Specie Bank Limited.

Dai (No. 4460)
The Petition herein is sanctioned.
September 17, Meiji 20th Year.

Seal of the Minister of Finance

THE YOKOHAMA SPECIE BANK LIMITED

(YOKOHAMA SHOKIN GINKO)

113TH HALF-YEARLY ORDINARY GENERAL MEETING
September 10, 1936

CAPITAL SUBSCRIBED AND FULLY PAID	Yen 100,000,000
RESERVE FUND	Yen 130,900,000

Directors

KENJI KODAMA, President
TOSHIKATA OKUBO, Vice-President
BARON KOYATA KWASAKI
NORI WATANABE
REITARO ICHINOMIYA
BARON ICHIZAEMON MORIMURA
KUNIZO MOGAMI
KIMPEI TAKEUCHI
HIDESHIGE KASHIWAGI
YAKICHI SUITSU
KANJI YANO

REPORT TO THE SHAREHOLDERS

GENTLEMEN,

The Directors submit to you the annexed Statement of the Liabilities and Assets of the Bank, and of the Profit and Loss Account for the half year ending June 30, 1936.

The Net Profit of the Bank for the past half-year, after providing for all Bad and Doubtful Debts, Rebate on Bills, etc., shows Yen 17,196,651·83 inclusive of Yen 10,060,937·10 brought forward from last Account.

The Directors propose that Yen 1,750,000·00 be added to the Reserve Fund, and recommend a Dividend at the rate of 10 per cent. per annum, which will absorb Yen 5,000,000·00.

The Balance, Yen 10,446,651·83 will be carried forward to the credit of the next Account.

KENJI KODAMA,
Chairman.

Head Office, Yokohama, September 10, 1936.

Y.S.B. Printing Dept.

THE YOKOHAMA SPECIE BANK LIMITED

(YOKOHAMA SHOKIN GINKO)

Established 1880

ONE HUNDRED AND THIRTEENTH REPORT

Head Office : YOKOHAMA

Branches and Agencies :

Tokyo	Marunouchi
Nagoya	Kobe
Osaka	Moji
Nagasaki	London
Paris	Berlin
Hamburg	Alexandria
Rio de Janeiro	New York
San Francisco	Los Angeles
Seattle	Honolulu
Bombay	Karachi
Calcutta	Rangoon
Sydney	Sourabaya
Semarang	Batavia
Manila	Singapore
Bangkok	Hongkong
Canton	Shanghai
Hankow	Tientsin
Peiping	Tsingtao
Dairen	Yingkow
Fengtien	Hsinking
Harbin	

GENERAL BALANCE. JUNE 30, 1936

Dr. — LIABILITIES

	Yen
Capital	100,000,000·00
Reserve Fund	129,150,000·00
Reserve for Doubtful Debts	3,669,241·62
Notes in Circulation	3,084,246·13
Deposits (Current, Fixed, etc.)	568,967,218·05
Bills Payable, Bills Rediscounted, Acceptances and other Sums due by the Bank	573,069,757·73
Dividends Unclaimed	6,295·00
Balance of Profit and Loss brought forward from last Account	10,000,937·10
Net Profit for the past Half-year	7,135,714·73
	Yen 1,395,143,410·36

Cr. — ASSETS

	Yen	Yen
Cash Account :		
In Hand	19,113,944·45	
At Bankers ...	42,103,650·15	
		61,217,594·60
Investments in Public Securities and Debentures		426,227,939·79
Bills Discounted, Loans, Advances, etc. ...		323,229,529·11
Bills Receivable and other Sums due to the Bank		563,064,862·03
Bullion and Foreign Money		975,282·22
Bank's Premises, Properties, Furniture, etc.		20,428,202·61
		Yen 1,395,143,410·36

PROFIT AND LOSS ACCOUNT

	Yen
To Reserve Fund	1,750,000·00
To Dividend :	
Yen 5·00 per Share for 1,000,000 Shares	5,000,000·00
To Balance Carried forward to next Account	10,446,651·83
	Yen 17,196,651·83

	Yen
By Balance brought forward December 31, 1935	10,060,937·10
By Net Profit for the Half-year ending June 30, 1936 ... ... (After making Provision for Bad and Doubtful Debts, Rebate on Bills, etc.)	7,135,714·73
	Yen 17,196,651·83

We have examined the above Accounts in detail, comparing them with the Books and Vouchers of the Bank and the Returns from the Branches, and have found them correct. We have further verified the Securities, etc., of the Bank, and also those held on account of Loans, Advances, etc., and have found them all to be in accordance with the Books and Accounts of the Bank.

TAKUMA SUGI
NOBUJIRO OTSUKA
MARQUIS NAKAHIRO IKEDA
ISABURO NISHIMAKI
} *Auditors*

THE INDUSTRIAL BANK

LAW CONCERNING THE NIPPON KWANGYO GINKO

AND AMENDMENTS THERETO

(*Law No.* 82, *of April* 18, 1896)

CHAPTER I

GENERAL PROVISIONS

Article 1. The Nippon Kwangyo Ginko shall be a joint stock company, and shall have its principal office in Tokyo.

Article 2. The capital of the Nippon Kwangyo Ginko shall be 10 million yen; provided, however, that it may be increased by a resolution adopted at a general meeting of shareholders, subject to the approval of the Government.

Article 3. Each share in the Nippon Kwangyo Ginko shall have a face value of 50 yen.

Article 4. The period of duration of the Nippon Kwangyo Ginko shall be 100 years from the day on which permission is issued for its establishment; but such period may be extended by a resolution adopted at a general meeting of shareholders, subject to the approval of the Government.

CHAPTER II

Principal Officers

Article 5. The Nippon Kwangyo Ginko shall have a Governor, a Vice-Governor, three or more Directors, and three or more Auditors.

In addition to the persons mentioned in the preceding paragraph, the Bank may have Local Advisers, not exceeding two in number, in each prefecture in which no Agricultural and Industrial Bank exists.

Article 6. The Governor shall represent the Nippon Kwangyo Ginko and shall exercise a general supervision over its affairs.

In case the Governor is unable to discharge his functions, the Vice-Governor shall act as his deputy; and whenever the office of Governor is vacant, the Vice-Governor shall exercise his functions.

The Vice-Governor and the Directors shall assist the Governor, and in due accordance with the provisions of the Articles of Incorporation, shall take charge of different departments of the business of the Nippon Kwangyo Ginko or shall participate therein as councillors.

The Auditors shall inspect the business of the Nippon Kwangyo Ginko.

The Local Advisers shall, in accordance with the provision of the Articles of Incorporation, return answers to the inquiries made by the Governor in regard to the business of the Nippon Kwangyo Ginko in their respective prefectures.

Article 7. The Governor and the Vice-Governor shall be appointed by the Government from among the shareholders holding each 400 or more shares, and their term of office shall be five years; provided, however, that they shall be eligible for reappointment.

The Directors shall be appointed by the Government from among candidates, whose number shall be double that of the Directors to be appointed, elected at a general meeting of shareholders from among the shareholders holding each 200 or more shares. Their term of office shall be five years; provided, however, that they shall be eligible for reappointment in the manner prescribed in this Article.

The Auditors shall be elected at a general meeting of shareholders from among the shareholders holding each 120 or more shares, and their term of office shall be three years; provided, however, that they shall be eligible for re-election.

The Local Advisers shall be appointed by the Government from among the shareholders residing in their respective prefectures and holding 100 or more shares each. Their term of office shall be three years; provided, however, that they shall be eligible for reappointment.

Article 8. The Governor, the Vice-Governor and the Directors taking charge of different departments of the business of the Nippon Kwangyo Ginko may not, during their term of office, engage in any other business, profession, or trade under whatsoever denomination; provided, however, that this provision shall not apply in cases where the approval of the Minister of Finance has been obtained.

CHAPTER III

GENERAL MEETINGS OF SHAREHOLDERS

Article 9. Ordinary general meetings of shareholders shall be convened by the Governor twice a year on the dates prescribed in the Articles of Incorporation.

Article 10. An extraordinary general meeting of shareholders may be convened by the Governor at any time for the purpose of discussing urgent matters.

Article 11. The auditors, or shareholders representing one-fifth or more of the total stock, may, stating the object of the meeting, request the Governor to convene an extraordinary general meeting of shareholders.

In case the Governor receives such a request, he shall convene an extraordinary general meeting of shareholders.

Article 12. At a general meeting of shareholders, absent shareholders can be represented only by shareholders having the right to vote, or by legally qualified proxies.

No officer or employee of the Nippon Kwangyo Ginko is qualified to represent shareholders at a general meeting of shareholders.

Article 13. (*Abrogated.*)

CHAPTER IV

Business

Article 14. The Nippon Kwangyo Ginko shall make, on the security of immovable property, loans redeemable by annual instalments within a period of fifty years.

The Nippon Kwangyo Ginko may make, on the security of immovable property, loans redeemable on a fixed date within a period of five years. However, in cases where loans are made on behalf of industries relating to aquatic products, fishery rights may be taken as security.

The total amount of loans authorised by the preceding paragraph, and of loans such as are mentioned in Article 31-2, may not together exceed double the total amount of the paid-up capital plus the reserve fund.

In the application of this Law to the " mass of property " connected with railways or tramways, such masses shall be regarded as immovable property.

Article 14-2. With the exception of loans made on the security of land or buildings, and the " mass of property " which are connected with factories, the total amount of loans made on the security of land or buildings situated in places subject to municipal administration and in towns designated by Imperial Ordinance, loans made on the security of loans secured upon them (including mortgage certificates) and loans such as are mentioned in the fifth paragraph of Article 15, may not together exceed one-half of the total amount of the paid-up capital and the Hypothec Debentures issued.

Article 15. The Nippon Kwangyo Ginko may make loans without security to prefectures, cities, towns, villages and other public bodies organised by law.

In cases where the reclamation and improvement of land is carried out in conformity with the Law for Land Reclamation and Improvement, if Societies of Land Reclamation and Improvement, or unions thereof, shall have applied for loans, or if persons co-operating in the execution of such reclamation and improvement shall have applied for loans on their joint and several responsibility, the Nippon Kwangyo Ginko may without security make loans redeemable on a fixed date and loans redeemable by annual instalments.

Loans redeemable on a fixed date and loans redeemable by annual

instalments may be made without security to Co-operative Societies, Textile Co-operative Societies, Manufacturers' Societies, Fishery Societies, Forestry Co-operative Societies, Livestock Raisers' Societies, Building Societies, or unions thereof.

In prefectures where no Agricultural and Industrial Bank exists, if and when ten or more persons engaged in agriculture, industry or fishery have by agreement applied for loans on their joint and several responsibility, loans redeemable on a fixed date within a period of five years and loans redeemable by annual instalments within a period of ten years may be made without security, but only to persons whose credit is sound.

In cases where the replotting of land is carried out in accordance with the Town-Planning Law, if and when Replotting of Land Societies or unions thereof have applied for loans, or if and when persons co-operating in the execution of such replotting shall have applied for loans on their joint and several responsibility, the Nippon Kwangyo Ginko may without security make loans redeemable on a fixed date and loans redeemable by annual instalments.

Article 15-2. The Nippon Kwangyo Ginko may not use the funds obtained from the issue of premium-bearing Hypothec Debentures for any other purpose than for making loans on the security of paddy fields, upland fields, salt fields, forests, pastures or fish hatchery sites, loans advanced on the security of loans secured on them (including mortgage certificates), loans on the security of fishery rights, loans such as are mentioned in paragraphs from one to four of the preceding article, and the taking up of Industrial and Agricultural Debentures and Productive Debentures ; provided, however, that this enactment shall not apply to cases where the approval of the Minister of Finance has been obtained.

Article 16. All securities taken by the Nippon Kwangyo Ginko shall be first mortgages ; provided, however, that this provision shall not apply to cases where upon the redemption of any prior loans by means of new loans obtained from the Nippon Kwangyo Ginko, first mortgages are taken as security for such new loans, nor to cases where the next preceding mortgagee is the Nippon Kwangyo Ginko and the total amount of the prior loans and the new loans does not exceed the limit prescribed in Article 18.

The Nippon Kwangyo Ginko, in making loans on the security of fishery rights, may take as collateral security any valuable instrument or immovable property.

Article 17. Land taken as security by the Nippon Kwangyo Ginko shall be only such as promises to yield a permanent and assured income.

Buildings taken as security by the Nippon Kwangyo Ginko shall be only such as are insured ; provided, however, that insurance shall not be necessary in cases where, in addition to such security, other movable or immovable property of at least double the value of the amount of the loans is offered as collateral security.

Article 18. The amount of loans made on the security of immovable property shall not exceed two-thirds of the value thereof as appraised by the Nippon Kwangyo Ginko. When fishery rights are taken as security, the same provision shall apply.

Article 19. The annual redemption instalments shall be computed by adding together the principal and interest, and shall be fixed at a definite and equal amount for each year.

The amount of the redemption instalments mentioned in the preceding paragraph may not be altered ; provided, however, that this provision shall not apply to cases in which alterations in the amount are made after a partial redemption of the loan.

Article 20. (*Abrogated.*)

Article 21. With reference to the redemption of loans by annual instalments, the period during which loans may remain unredeemed shall be some fixed length of time not greater than five years ; provided, however, that this provision shall not apply to the interest payable during such period.

The period during which loans may remain unredeemed, mentioned in the preceding paragraph, need not be fixed if the party concerned so desires.

Article 21-2. When prior to the time for redemption by annual instalments a natural calamity or other inevitable accident shall have occurred, the period during which the loan may remain unredeemed may be renewed up to a maximum of five years.

Article 22. When a debtor is in arrears of payment of any annual instalment, of a loan redeemable on a fixed date, or of any interest, he shall be bound to pay interest on the amount of such arrears from the day following that fixed for payment.

Article 23. A debtor to whom a loan redeemable by annual instalments has been made may redeem the whole or any part of such loan on a date prior to the expiration of the period of redemption.

In the case mentioned in the preceding paragraph the Nippon Kwangyo Ginko may demand reasonable fees at the rate prescribed in its Articles of Incorporation.

Article 24. When a debtor has redeemed one-fifth of a loan or more he may demand the release of a proportionate amount of the security given in respect thereof. The same shall apply to the balance of the loan.

Article 25. The Nippon Kwangyo Ginko may demand of a debtor who is in arrears of any annual instalment the redemption of the whole of the loan even though the period of redemption may not have expired.

Article 26. If the value of the security has decreased, creating a deficiency in the rate mentioned in Article 18, with reference to the unredeemed part of a loan, the Nippon Kwangyo Ginko may demand additional security or in the alternative the redemption of a portion of the loan corresponding to such deficiency.

In case a debtor fails to comply with the demand mentioned in the preceding paragraph, the Nippon Kwangyo Ginko may demand the redemption of the whole of the loan even though the period of redemption may not have expired.

Article 27. In case the whole or some part of immovable property given as security is expropriated under the Law of Eminent Domain, the Nippon Kwangyo Ginko may demand the redemption of the loan even though the period of redemption may not have expired; provided, however, that this provision shall not apply if the debtor deposits in the Deposit Office the compensation for expropriation or furnishes some other suitable immovable property as additional security.

Where the expropriation is limited to a part, the demand for redemption shall be limited in proportion.

Article 28. If a prefecture, city, town, village, or other public body organised by law, to which a loan has been made without security, fails to pay any annual instalment, a loan redeemable on a fixed date or any interest, on the date fixed for payment, or fails to make payment in compliance with a demand for redemption before the expiration of the period of redemption, the Nippon Kwangyo Ginko may apply to the competent authorities to take suitable steps in the matter.

In the cases mentioned in the preceding paragraph the Nippon Kwangyo Ginko shall apply, in the case of a prefecture, to the Minister for Home Affairs, and in that of a city, town, village, or other public body organised by law, to the competent authorities immediately concerned.

When the competent authorities have received the abovementioned application, they shall order the prefecture, city, town, village, or other public body organised by law, to pay the arrears and interest thereon as prescribed in Article 22.

Article 29. The Nippon Kwangyo Ginko may take up Agricultural and Industrial Debentures, Hokkaido Colonisation Debentures, Productive Debentures and debentures issued by the Chosen Industrial Bank.

Article 30. The Nippon Kwangyo Ginko, before taking up Agricultural and Industrial Debentures, Hokkaido Colonisation Debentures, Productive Debentures or debentures issued by the Chosen Industrial Bank, may inspect the condition of the business and property of the Agricultural and Industrial Bank, the Hokkaido Colonisation Bank, the Central Cash Office of Co-operative Societies, or the Chosen Industrial Bank as the case may be.

Article 31. The Nippon Kwangyo Ginko may make loans redeemable by annual instalments, on the security of loans redeemable by annual instalments, made by the Agricultural and Industrial Banks, and of the mortgages by which the latter are secured.

Article 31-2. The Nippon Kwangyo Ginko may make loans redeemable on a fixed date within a period of five years, on the

security of loans secured on immovable property (including mortgage certificates).

The provisions of the first paragraph of Article 16 and of Articles 17, 18, 26 and 27 shall apply with the necessary modifications to the mortgages accompanying loans which are taken up as security for such loans as are mentioned in the preceding paragraph and to the immovable property which is the subject thereof.

Article 31-3. The Nippon Kwangyo Ginko may sell and purchase mortgage certificates.

The provisions in this Law which relate to loans shall apply with the necessary modifications to the purchase of mortgage certificates.

Article 31-4. The Nippon Kwangyo Ginko may receive deposits and may accept for safe deposit gold and silver bullion and valuable instruments; provided, however, that the total amount of deposits, other than fixed deposits and deposits of public moneys dealt with in accordance with Article 32-2 and the use of which has been sanctioned, shall not exceed the amount of the paid-up capital.

Article 32. The Nippon Kwangyo Ginko may not employ the deposits mentioned in the preceding Article or business surpluses except in the following ways:

(1) As regards one-fourth or more of the total deposits, in the purchase of national loan bonds, or other valuable instruments approved by the Minister of Finance, the same to be deposited in the Deposit Bureau of the Department of Finance or in banks approved by the Minister of Finance.

(2) For the purpose of discounting bills, and of making short-term loans, secured upon the bonds and instruments mentioned in the preceding item, upon agricultural products, upon aquatic products, or upon industrial manufactures.

(3) For the purpose of discounting bills and granting overdrafts on current deposit to Co-operative Societies, Textile Co-operative Societies, Manufacturers' Societies, Fishery Societies, or unions thereof.

(4) For the purpose of making short-term loans without security, in prefectures where no Agricultural and Industrial Bank exists, when ten or more persons engaged in agriculture, industry or fishery shall have applied therefor on their joint and several responsibility, but only to persons whose credit is sound.

(5) For the purpose of making short-term loans to public corporations.

In addition to the provisions of the preceding paragraphs, fixed deposits may be used for the purpose of making such loans redeemable on fixed dates as are mentioned in paragraph 2 of Articles 14 and 31-2.

Article 32-2. The Nippon Kwangyo Ginko may deal with the receipt and disbursement of moneys for prefectures and cities.

Article 32-3. The Nippon Kwangyo Ginko may take charge of Hypothec Debentures issued by the Bank, which are the property or in the custody of the Government, on behalf of the Bank of Japan.

Article 33. The Nippon Kwangyo Ginko may not engage in any business not authorised by this Law.

CHAPTER V

Hypothec Debentures (Kwangyo-saiken)

Article 34. The Nippon Kwangyo Ginko may, when one-fourth or more of its capital has been paid up, issue Hypothec Debentures up to an amount not exceeding fifteen times that of its paid-up capital; provided, however, that such debentures shall not exceed the total amount of the loans redeemable by annual instalments, together with the total amount of the loans redeemable on fixed dates and Agricultural and Industrial Debentures, Hokkaido Colonisation Debentures, Productive Debentures and debentures issued by the Chosen Industrial Bank actually in hand which may have been taken up by the Bank.

In the issue of Hypothec Debentures, the provisions of Articles 199 and 200-2 of the Commercial Code shall not apply.

In case of an issue of Hypothec Debentures, if it is stated in the written application for debentures that the debentures shall be valid even though the total amount subscribed may not reach the total proposed amount of such debentures, the total amount subscribed shall be deemed to be the total amount of the debentures.

Article 35. Hypothec Debentures shall each have a face value of 10 yen or more, shall be made to bearer and shall carry interest coupons; provided, however, that each may be converted into an inscribed debenture at the request of the subscriber or holder.

Article 35-2. In case the Nippon Kwangyo Ginko issues Hypothec Debentures of a face value not exceeding 20 yen each, it may effect such issue by means of sale; and in such cases the term of sale must be fixed.

In the case mentioned in the preceding paragraph, written application for debentures shall not be necessary.

On Hypothec Debentures issued in accordance with the provisions of the first paragraph of this Article, there shall be inscribed the trade name [of the Bank] and the matters mentioned in items 2, 4, 5 and 6 of Article 173 of the Commercial Code.

The period for registration mentioned in the first paragraph of Article 204-3 of the Commercial Code, shall be computed from the day of expiration of the term of sale; and the matters to be registered shall be the total proceeds of sale during the aforesaid term as

well as the matters mentioned in items 4, 5 and 6 of Article 173 of the Commercial Code.

An application for registration of debentures, in cases where Hypothec Debentures have been issued by means of sale, must be accompanied by documents verifying the total proceeds of sale of the Hypothec Debentures.

Article 35-3. When the Nippon Kwangyo Ginko desires to issue Hypothec Debentures by means of sale, it shall give public notice of the term of sale and of the matters mentioned in items 1, 2 and 3 of the second paragraph of Article 203 of the Commercial Code.

Article 35-4. Hypothec Debentures may be issued by means of discount.

Article 36. The Nippon Kwangyo Ginko shall redeem Hypothec Debentures by drawings made two or more times a year in proportion to at least the total amount of redemption of loans redeemable by annual instalments, and of the Agricultural and Industrial Debentures, the Hokkaido Colonisation Debentures, the Productive Debentures, and the debentures issued by the Chosen Industrial Bank which it has taken up.

The Nippon Kwangyo Ginko, in redeeming Hypothec Debentures, may grant premiums; provided, however, that the method and amount of such grants shall receive the approval of the Minister of Finance.

Article 36-2. In case the Nippon Kwangyo Ginko has had loans redeemed in accordance with Article 23, prior to the expiration of the period of redemption, it may, with the approval of the Minister of Finance, redeem Hypothec Debentures by purchase within the limit of a sum corresponding to the amount of such redemption of loans.

Article 37. The Nippon Kwangyo Ginko may, for the purpose of converting Hypothec Debentures, provisionally issue Hypothec Debentures at a low rate of interest, irrespective of the restrictions contained in Article 34.

If Hypothec Debentures at a low rate of interest have been issued, the Bank shall, within one month after such issue, redeem by means of drawings old Hypothec Debentures to an amount corresponding to the face value of the new issue.

Article 38. The interest on Hypothec Debentures shall be paid twice a year at the periods prescribed in the Articles of Incorporation; provided, however, that, with the approval of the Minister of Finance, compound interest, computed semi-annually, may be paid at fixed periods of years, or be left unpaid until the time of redemption of the principal.

Hypothec Debentures issued on the terms of leaving the interest unpaid until the time of redemption of the principal according to the preceding paragraph, may not carry interest coupons.

Article 39. If the redemption of loans redeemable by annual instalments shall have been delayed and the estimated amount has

not been reached, and if the total redemption of the Agricultural and Industrial Debentures, the Hokkaido Colonisation Debentures, the Productive Debentures, or the debentures issued by the Chosen Industrial Bank, which have been taken up by the Bank, cannot be effected on account of the dissolution of an Agricultural and Industrial Bank, the Hokkaido Colonisation Bank, the Central Cash Office of Co-operative Societies or the Chosen Industrial Bank issuing the same, the Nippon Kwangyo Ginko shall, simultaneously with the redemption mentioned in Article 36, redeem by means of drawings Hypothec Debentures to an amount corresponding to the arrears or to the face value of the Agricultural and Industrial Debentures, the Hokkaido Colonisation Debentures, the Productive Debentures or the debentures issued by the Chosen Industrial Bank, which are left unredeemed.

Article 40. When a holder of Hypothec Debentures fails to claim the principal or some interest thereon, he shall forfeit his right of claim to the principal after fifteen years and to such interest after five years.

Article 41. With reference to the counterfeiting of Hypothec Debentures, the Law for the Control of Counterfeiting of Currency and Bills shall apply with the necessary modifications.

Article 42. Any person who shall have lost premium-bearing Hypothec Debentures made to bearer or any interest coupons thereto may demand payment of the principal, premium and interest, upon depositing security or furnishing a reliable surety.

CHAPTER VI

Reserve Fund

Article 43. The Nippon Kwangyo Ginko shall annually set apart as a reserve fund, 8 per cent. or more of its profits to make up any losses of capital, and 2 per cent. or more of its profits for the equalisation of dividends.

CHAPTER VII

Government Supervision and Subsidy

Article 44. The Minister of Finance shall supervise the business of the Nippon Kwangyo Ginko.

Article 45. If the Nippon Kwangyo Ginko shall desire to make any alterations in its Articles of Incorporation, it shall obtain the approval of the Minister of Finance.

Article 46. If the Nippon Kwangyo Ginko shall desire to establish a branch or agency, it shall obtain the approval of the Minister of Finance. Moreover, when the Minister of Finance deems any branch or agency to be necessary, he may direct the Nippon Kwangyo Ginko to establish it.

Article 47. The Nippon Kwangyo Ginko shall not, without the approval of the Minister of Finance, distribute any dividend among its shareholders.

Article 48. The Minister of Finance shall suspend any business operations of the Nippon Kwangyo Ginko that he may deem contrary to Laws or Ordinances, or to the Articles of Incorporation or injurious to the public interest.

Article 49. The Nippon Kwangyo Ginko shall, upon the direction of the Minister of Finance, submit reports on the general condition of its business as well as statements of accounts.

Article 50. The Minister of Finance may, whenever he shall deem it necessary, restrict the amounts and procedure of loans and discounts made by the Nippon Kwangyo Ginko.

Article 51. The maximum rate of interest on loans made by the Nippon Kwangyo Ginko shall be fixed, with the approval of the Minister of Finance, at the beginning of each business year. Whenever it is desired to make any alteration thereof in the course of such business year, the same provision shall apply.

Article 52. If the Nippon Kwangyo Ginko desires to issue Hypothec Debentures, it shall obtain the direct approval of the Minister of Finance.

Article 53. The Minister of Finance shall make a special appointment of one or more Government Supervisors for the supervision of the business of the Nippon Kwangyo Ginko.

In prefectures where no Agricultural and Industrial Bank exists the Minister of Finance shall appoint Local Governmental Supervisors

for the supervision of the business of the Nippon Kwangyo Ginko in each prefecture concerned.

Article 54. The Government Supervisors and Local Governmental Supervisors may at any time inspect the safes, vaults, books and all other documents belonging to the Nippon Kwangyo Ginko.

If the Government Supervisors or Local Governmental Supervisors deem it necessary for purposes of supervision, they may at any time direct the Nippon Kwangyo Ginko to report on its various business accounts and condition.

Government Supervisors may attend general meetings of shareholders and any other meetings and state their opinions, but they shall have no power to vote.

Article 55. If the dividends of the Nippon Kwangyo Ginko fall short of 5 per cent. per annum, the Government shall, during a period of not exceeding ten years from the date of establishment of the Bank, grant a subsidy to cover the deficiency. The subsidy may not in any case exceed 5 per cent. of the paid-up capital.

CHAPTER VIII

PENAL PROVISIONS

Article 56. In case any of the following offences are committed in connection with the Nippon Kwangyo Ginko, the Governor or the Vice-Governor, if he is exercising the functions of the Governor or acting as his deputy, shall incur a fine of not less than 100 yen nor more than 1,000 yen. If the offence is connected with business in the special charge of the Vice-Governor or any Director, the Vice-Governor or such Director shall incur a similar fine.

(1) Making loans in contravention of the provisions of Articles 14, 14-2, and 15-2.

(2) Making loans in contravention of the provisions of Article 16, on other than first mortgages.

(3) Receiving deposits in contravention of the proviso to Article 31-4, or employing deposits or business surpluses in contravention of the provisions of Article 32.

(4) Engaging, in contravention of the provisions of Article 33, in business not authorised by the present Law.

(5) Issuing Hypothec Debentures in contravention of the provisions of Article 34 or Article 35-3 ; provided, however, that this shall not apply to debentures falling under the first paragraph of Article 37.

(6) Failing to redeem Hypothec Debentures, as provided in the first paragraph of Article 36, the second paragraph of Article 37 and Article 39.

(7) Disposing of profits in contravention of the provisions of Article 43.

Article 57. If the Governor, the Vice-Governor or any Director of the Nippon Kwangyo Ginko, shall have contravened the provisions of Article 8, he shall incur a fine of not less than 20 yen nor more than 200 yen.

Article 58. (*Abrogated.*)

SUPPLEMENTARY PROVISIONS

Article 59. The Government shall appoint an Organisation Committee which shall manage all business connected with the organisation of the Nippon Kwangyo Ginko until permission is issued for its establishment.

Article 60. The Organisation Committee shall draft the Articles of Incorporation, and after having obtained the approval of the Government thereto, shall invite subscriptions for shares.

Article 61. When the subscription has been completed, the Organisation Committee shall submit the subscription list to the Government, and apply for permission for the establishment.

Article 62. As soon as the Organisation Committee has received permission for the establishment mentioned in the preceding Article, it shall place its business in the hands of the Governor of the Nippon Kwangyo Ginko.

Article 63. With reference to the period for which the first Governor, Vice-Governor, Directors and Auditors upon establishment shall, in accordance with Article 7, have held shares, the provisions of the fourth paragraph of the said Article shall not apply.

Article 64. The term of office of the first Governor, Vice-Governor and Directors upon establishment shall be three years.

The first Directors and Auditors upon establishment shall be appointed by the Government from among the shareholders.

NIPPON KWANGYO GINKO LTD.

STATEMENT OF CONDITION AS AT DECEMBER 31, 1936

LIABILITIES

	Yen
Subscribed capital	115,275,000·00
Reserve funds	100,284,400·28
Unclaimed dividends	87,599·91
Debentures outstanding	791,692,478·00
Loans from deposit bureau	44,782,539·00
Deposit (current, fixed, etc.)	148,516,571·45
Unclaimed interest and premiums ...	57,487,112·02
Funds for payment of premiums	3,411,042·87
Provisional receipts	24,493,305·53
Other liabilities	6,207,359·62
Profit for half year (including brought forward)	10,565,656·59
Total	1,302,803,065·27

ASSETS

	Yen
Unpaid capital	24,123,937·50
Loans redeemable in annual instalments and single payments	953,743,126·77
Bills discounted and short-term loans ...	46,974,701·41
Government bonds	59,979,882·85
Other securities	16,198,927·55
Deposits at Treasury Deposit Bureau ...	76,238,055·00
Other deposits	17,511,569·51
Call loan	19,500,000·00
Agents' accounts	6,107,036·62
Bank premises, etc.	29,630,038·67
Provisional payments	2,497,517·51
Cash in hand	1,167,761·92
Other assets	49,130,509·96
Total	1,302,803,065·27

LAW OF INCORPORATION OF THE NIPPON KOGYO GINKO

(THE INDUSTRIAL BANK OF JAPAN LTD.)

Promulgated as Law No. 70, on the 22nd day of March, the 33rd Year of Meiji (1900)

CHAPTER I

GENERAL STATEMENT

Article 1. The Nippon Kogyo Ginko shall be constituted a Joint Stock Company and have its chief office in Tokyo.

Article 2. The capital of the Nippon Kogyo Ginko shall be 17,500,000 yen; which amount may be increased with the sanction of the Government. (As amended by Law No. 2, 1906.)

Article 3. The amount of each share of the Nippon Kogyo Ginko shall be 50 yen. (As amended by Law No. 2, February 1906.)

Article 4. The term of business of the Nippon Kogyo Ginko shall be fifty years; which term may be extended with the sanction of the Government.

CHAPTER II

Chief Officers

Article 5. There shall be one President, one Vice-President, three or more Directors, and three or more Auditors of the Nippon Kogyo Ginko. (As amended by Law No. 2, February 1906, and Law No. 8, March 1914.)

Article 6. The President shall represent the Nippon Kogyo Ginko, and superintend its business. (As amended by Law No. 2, February 1906.)

In the event of the office of President becoming vacant, the Vice-President shall discharge the duties of President. (As amended by Law No. 2, February 1906.)

The Vice-President and Directors shall assist the President and shall respectively have charge of different departments of the business of the Nippon Kogyo Ginko, or participate in the charge of the same as provided in the By-laws. (As amended by Law No. 2, February 1906, and Law No. 26, March 1918.)

The Auditors shall inspect the business of the Nippon Kogyo Ginko.

Article 7. The President and Vice-President shall be appointed by the Government from among shareholders owning at least 200 shares each. The term of office of a President and a Vice-President shall be five years. (As amended by Law No. 2, February 1906.)

The Directors shall be appointed by the Government from among candidates elected at a General Meeting of Shareholders, the qualification of such candidates to be ownership of at least 100 shares each, and the number of candidates to be twice that of the Directors to be appointed. The term of office of a Director shall be three years. (As amended by Law No. 2, February 1906.)

The Auditors shall be appointed by election at a General Meeting of Shareholders from among shareholders owning at least sixty shares each ; and the term of office of an Auditor shall be two years. (As amended by Law No. 2, February 1906.)

Article 8. The President, the Vice-President, and the Directors who have charge of different departments of the business of the Nippon Kogyo Ginko, shall in no circumstances engage in any other profession or business whatsoever. An exception may only be made with special permission of the Minister of State for Finance. As amended by Law No. 49, March 1905, Law No. 2, February 1906, and Law No. 19, August 1920.)

CHAPTER III

Business

Article 9. The business of the Nippon Kogyo Ginko shall be as follows:

(1) To make loans on the security of national loan bonds, prefectural and municipal loan bonds, or debentures and shares of companies.

(2) To subscribe for, or underwrite, national loan bonds, prefectural and municipal loan bonds, or debentures of companies.

(3) To receive deposits of money and undertake the custody of goods entrusted to it for safe keeping.

(4) To undertake trust business relating to secured debentures. (As amended by Law No. 49, March 1905, and by Law No. 67, April 1922.)

(5) To discount bills. (Added by Law No. 49, March 1905.)

(6) To buy and sell bills of exchange and documentary bills of exchange. (Added by Law No. 8, March 1914.)

(7) To make loans on mortgages of estates (*zaidan*) created by virtue of special laws. (Added by Law No. 49, March 1905.)

(8) To make loans on mortgages of land and buildings belonging to factories. (Added by Law No. 8, March 14, 1933.)

(9) To make loans on mortgages of ships, including those under construction, which shall be redeemable by annual instalments within a period not exceeding fifteen years or at a fixed term of not more than five years. (Added by Law No. 26, March 1918.)

(10) To make loans on the security of shipbuilding materials and appurtenances. (Added by Law No. 26, March 1918.)

(11) To float national loan bonds, prefectural and municipal loan bonds, and debentures and shares of companies, and to receive payments on the same and to effect the payment of principal and interest or dividends on the above. (As amended by Law No. 67, April 1922.)

In addition to the kinds of business authorised by the above clauses, shares of companies may be subscribed for, or underwritten with the sanction of the Minister of State for Finance. (Added by Law No. 26, March 1918.)

Article 9 (2). The Nippon Kogyo Ginko may make loans on mortgages of land and buildings in cities and in towns approved by Imperial Ordinance, provided the total sum of these loans shall in no case exceed two-thirds the amount of the Bank's paid-up capital. (Added by Law No. 28, March 1911, Law No. 43, April 1929, and by Law No. 8, March 14, 1933.)

Article 10. The Nippon Kogyo Ginko may devote its unemployed funds to the purchase of national loan bonds, prefectural or municipal loan bonds, or the debentures and shares of companies, or gold and silver bullion. (As amended by Law No. 28, March 1911.)

Article 11. The Nippon Kogyo Ginko may not engage in any line of business not mentioned in this Law. This restriction shall not apply, however, when, with the permission of the Minister of State for Finance, the Bank engages in banking and other operations ancillary thereto which are conducted in foreign countries. (As amended by Law No. 49, March 1905.)

CHAPTER IV

Industrial Debentures

Article 12. The Nippon Kogyo Ginko may issue debentures, provided that their maximum amount shall not exceed ten times the amount of the Bank's paid-up capital ; nor shall such debentures exceed the aggregate of the moneys the Bank has actually loaned out, together with the bills actually discounted and in hand at the time, as well as of the national loan bonds, the prefectural or municipal loan bonds, and the debentures and shares of companies, and the gold and silver bullion in its possession. (As amended by Law No. 49, March 1905, and Law No. 28, March 1911.)

Article 12 (2). In the event of supplying capital for public utilities abroad, the Bank may issue debentures with the permission of the Minister of State for Finance without observing the provisions of Articles 12 and 15 of this Law and Article 200 of the Commercial Code. (Added by Law No. 49, March 1905.)

The above-mentioned public utilities shall be those approved by Imperial Ordinance. (As added by Law No. 49, March 1905.)

Article 13. The debentures issued by the Nippon Kogyo Ginko shall be of the face value of 20 yen or more and unregistered, and shall have coupons attached : they may, however, be changed into registered debentures at the request of subscribers or owners. (As amended by Law No. 19, August 1920.)

Article 13 (2). In the case of debentures of a face value not exceeding 50 yen, the Nippon Kogyo Ginko may issue the same by way of sale, but in this case the period of sale must be fixed.

In the case mentioned in the preceding paragraph, application for debentures need not be required.

Industrial debentures issued in accordance with paragraph 1 of this Article must contain a full description of the firm and state the particulars mentioned in the 2nd, 4th, 5th and 6th clauses of Article 173 of the Commercial Code.

The period mentioned in paragraph 1 of Article 204 (3) of the Commercial Code shall be reckoned from the day of the expiration of the selling period, and the total returns of the industrial debentures within the period of sale together with the particulars mentioned in the 4th, 5th and 6th clauses of Article 173 of the Commercial Code shall be registered.

In the case of an issue of industrial debentures by way of sale, the instrument proving the total returns of the industrial debentures within the set period of sale must be appended to the application for registration. (Added by Law No. 19, August 1920.)

Article 13 (3). The Nippon Kogyo Ginko, when it desires to issue debentures by way of sale, shall give public notice of the period of sale and the particulars mentioned in the 1st, 2nd and 3rd clauses of paragraph 2 of Article 203 of the Commercial Code. (Added by Law No. 19, August 1920.)

Article 13 (4). Industrial debentures may also be issued by way of discount. (Added by Law No. 19, August 1920.)

Article 14. When the Nippon Kogyo Ginko desires to issue debentures, it must obtain the permission of the Minister of State for Finance. (As amended by Law No. 49, March 1905.)

Article 14 (2). When the Bank issues debentures, Article 199 and Article 200 (2) of the Commercial Code are not applicable. (Added by Law No. 49, March 1905, and as amended by Law No. 5, March 1923.)

When the Bank issues debentures and the amount subscribed falls below the announced flotation figure, the debenture issue amount shall be reduced to the amount subscribed, provided, however, that provision has been made in the debenture application certificate to the purport that "the issue shall be declared valid even if the amount subscribed falls below the announced flotation figure." (Added by Law No. 5, March 1923.)

Article 15. The interest on the debentures of the Nippon Kogyo Ginko shall be paid twice in a year or oftener, and the principal shall be redeemed by lot within the space of thirty years reckoned from the date of issue.

Article 16. In case the Nippon Kogyo Ginko desires to issue debentures at a lower rate of interest, in order to replace those already issued, the Bank need not be bound by the limitations of Article 12.

When new debentures at a lower rate of interest are issued as here indicated, the Bank, within the space of three months after their issue, shall redeem by lot old debentures equal in face value to the amount of the new debentures.

Article 16 (2). When any owner of an industrial debenture fails to apply for the payment of the principal or the interest, his claim upon the principal shall expire after fifteen years and his claim upon the interest after five years. (Added by Law No. 19, August 1920.)

Article 16 (3). With regard to designs for the debentures of the Nippon Kogyo Ginko, the Regulations of Control for Designs of Currency and Public Bonds shall apply. (Added by Law No. 26, March 1918.)

CHAPTER V

THE RESERVE FUND

Article 17. The Nippon Kogyo Ginko shall put aside, at the end of each business year, 8 per cent. or more of its net profit as a reserve for making up any deficit in its capital, and 2 per cent. or more of the said net profit for maintaining an even rate of dividends.

CHAPTER VI

Government Control and Subsidy

Article 18. The Government shall have control over the business of the Nippon Kogyo Ginko.

Article 19. The Nippon Kogyo Ginko, when it proposes to make alterations in its by-laws, shall obtain the permission of the Minister of State for Finance.

Article 20. The Nippon Kogyo Ginko, when it proposes to establish branch offices or agencies, or to open correspondence with other banks, shall obtain the permission of the Minister of State for Finance. (As amended by Law No. 8, March 1914.)

The Minister of State for Finance, if he deems it necessary, may order the Nippon Kogyo Ginko to establish branch offices or agencies. (Added by Law No. 26, March 1918.)

Article 21. The Nippon Kogyo Ginko, when it proposes to declare a dividend, shall obtain the permission of the Minister of State for Finance.

Article 22. The Minister of State for Finance may suspend any act of the Nippon Kogyo Ginko in the course of its business management, should such act be regarded by him as either contrary to Law, Ordinance, or By-law, or injurious to the public interest.

Article 23. The Nippon Kogyo Ginko, in accordance with orders from the Minister of State for Finance, shall present reports showing the condition of its business together with a financial statement.

Article 24. The Minister of State for Finance shall specially appoint a Comptroller to supervise the business management of the Nippon Kogyo Ginko.

Article 25. The Comptrollers of the Nippon Kogyo Ginko may at any time examine the vaults for cash, the vaults for instruments of credit, the books and all documents of the Bank.

The Comptrollers of the Bank may attend the General Meeting of Shareholders or any other meetings of the Bank, and may express their views at the same.

Article 26. If the dividend to be declared for any business year of the Nippon Kogyo Ginko does not amount to 5 per cent. per annum of the paid-up capital, the Government shall give a subsidy sufficient to make up the deficiency, provided that the period of the Government's liability under this Article shall be limited to five years reckoned from the last day of the first business year of the Bank; and provided further that the amount of said subsidy shall in no case exceed 5 per cent. of the paid-up capital.

CHAPTER VII

Punitive Regulations

Article 27. Should there occur a breach of Law or Regulation, as enumerated below, in the business management of the Nippon Kogyo Ginko, the President, Vice-President and Directors shall each be required to pay a fine of not less than 100 yen and not more than 1,000 yen; provided that if any of the above-mentioned officers has not been a party to the violation, such officer shall be exempted. (As amended by Law No. 2, February 1906.)

(1) If the Bank has not secured the permission of the Minister of State for Finance in a case respecting which it is required by the Law that such permission should be secured.

(2) If the Bank has made loans contrary to the provisions of Article 9 (2). (Added by Law No. 28, March 1911.)

(3) If the Bank has undertaken any business not mentioned in this Law, contrary to the provisions of Article 11.

(4) If the Bank has issued debentures contrary to the provisions of Article 12, Article 13 (3) or Article 16. (As amended by Law No. 19, August 1920.)

Article 28. If the President, Vice-President and Directors of the Nippon Kogyo Ginko act in contravention of the provisions of Article 8, they shall be individually required to pay a fine of not less than 20 yen and not more than 200 yen. (As amended by Law No. 2, February 1906.)

Appendix

Article 29. The Government shall appoint a Commission for the transaction of all business connected with the establishment of the Nippon Kogyo Ginko.

Article 30. The Commission for the Establishment of the Nippon Kogyo Ginko shall make a draft of its By-laws, shall secure the sanction of the Government for the same, and shall then invite subscriptions.

Article 31. When the said Commission has secured a sufficient number of subscribers, it shall present to the Government the

subscription certificates and solicit sanction for the establishment of the Bank.

When the said sanction has been secured, the Commission shall without delay call for the payment of the first instalment of capital by the subscribers.

Article 32. At the conclusion of the General Meeting of Shareholders for the Establishment of the Bank, the Commission for the Establishment of the Nippon Kogyo Ginko shall hand over its business to the President of the Bank.

Appendix

(*Appendix of the Law No. 2, issued February* 1906)

This Law shall become effective from the day of promulgation.

The Nippon Kogyo Ginko shall take the following steps within three months from the day on which this Law becomes effective :

(1) The number of shares, which shall be 100,000 at the time when this Law comes in force, shall be altered to 200,000, one-half being fully paid up and the other half being not fully paid up. The latter half shall be allotted in proportion to the number of the shares owned by shareholders at the time when the Law becomes effective.

(2) A call for not less than one quarter of the amount shall be made without delay for the aforesaid not fully paid up shares. In this case, the provisions of the Commercial Code relating to the increase of the capital of a Joint Stock Company shall be applied.

(3) There shall be an increase of 150,000 shares, and a call for their full payment shall be made without delay. In this case, paragraph 2 of Article 217 and paragraph 1 of Article 218 of the Commercial Code need not be observed.

(4) Necessary registrations in connection with the aforesaid three clauses shall be made within two weeks from the date of the close of the Shareholders' General Meeting held in connection with the aforesaid second and third clauses in accordance with Article 213 of the Commercial Code. In this case, the document which certifies the taking over of shares may be used in place of the documents provided in Clauses 1 and 2 of Article 189 of the Law of Procedure in non-litigious matters.

Appendix

(*Appendix of the Law No. 19, issued August* 1920)

With regard to the Bank's debentures issued before the date of this law, the period defined in Article 16 (2) shall be reckoned from this date.

BY-LAWS OF THE NIPPON KOGYO GINKO

(THE INDUSTRIAL BANK OF JAPAN LTD.)

Sanctioned by the Minister of State for Finance on the 2nd of October, of the 33rd Year of Meiji (1900)

CHAPTER I

General Statement

Article 1. The Bank shall be established in accordance with the provisions of the Law relating to the Nippon Kogyo Ginko, namely Law No. 70 of the 33rd year of Meiji (1900), and shall be called the Kabushiki Kaisha Nippon Kogyo Ginko (The Industrial Bank of Japan Ltd.).

Article 2. The Bank shall have for its object the transaction of business in accordance with the Law relating to the Nippon Kogyo Ginko and other Laws or Ordinances. (As amended, May 1905.)

Article 3. The Bank shall have its head office in Tokyo, and branch offices in Tokyo, Osaka, Kobe, Nagoya and Fukuoka. (As amended, August 1913 and May 1918 and June 1929 and February 5, 1932.)

The Bank, with the sanction of the Government, may establish branches and agencies, or open correspondence with other banks in convenient places at home and abroad. (As amended, February 1903 and June 1914.)

Article 4. The term of the Bank's business shall be fifty years, reckoned from the day when the Government's sanction for its establishment is given : the term may, however, be extended by a resolution of a Shareholders' General Meeting and with the sanction of the Government.

Article 5. All expenses connected with the first establishment of the Bank shall be borne by the Bank.

Article 6. All notifications of the Bank shall be made public through the columns of the *Official Gazette* and such newspapers as are regular channels for the notifications of the courts of justice. As to notifications abroad, local usage shall be observed. (As amended, February 1906.)

CHAPTER II

Capital and Shares

Article 7. The capital of the Bank shall be 50 million yen, which shall be divided into 1 million shares, each share being 50 yen. (As amended, February 1906 and August 1917 and August 1919.)

The shares of the Bank shall be issued in certificates of six denominations: namely, 1 share, 5 shares, 10 shares, 20 shares, 50 shares, 100 shares. (As amended, February 1906.)

The capital of the Bank may be increased by a resolution of a Shareholders' General Meeting and with the sanction of the Government.

Article 8. So soon as shareholders have paid in the first instalment, the shares shall be delivered to them, and the amount of each instalment when paid shall be entered on the share certificates on every occasion of such payment.

Article 9. With regard to subsequent instalments after the second, the President shall fix the date, the method and the amount of payment in accordance with the condition of business; and notice of payment shall be given to shareholders at least one month before such date. (As amended, February 1906.)

Article 10. All cases of negligence in the payment of instalments shall be dealt with in accordance with the provisions of the Commercial Code.

The Bank shall, in all such cases of negligence, require the payment of a fine at the rate of 4 sen per 100 yen per day, during a period reckoned from the day after the appointed date of payment of the instalment until its actual payment.

Article 10 (2). To unregistered share certificates shall be attached a talon and dividend coupons for fifty business years. (Added, February 1906.)

When all the above-mentioned dividend coupons have been used up, the share certificates shall be presented to the Bank and new dividend coupons with a talon attached shall be exchanged for the old talon. (Added, February 1906.)

Article 11. When shares of the Bank are to be transferred, a statement of the transfer together with the registered shares to be transferred shall be presented at the Bank. (As amended, February 1906.)

In the above-mentioned case, the Bank shall require both the parties concerned to sign their names on the back of the share certificates ; and after the fact of transfer has been duly entered in the Subscription Book, the shares shall be delivered to their new owner. (As amended, February 1906.)

Persons who, coming in possession of shares of the Bank by succession or bequest, apply to have their names registered instead of those of the former owners, shall present proper papers of identification.

Article 12. Should any registered shares of the Bank be lost, destroyed or stolen, the owner may apply to the Bank for delivery of a new certificate, and must accompany his application by a statement giving in detail the face value and numbers of the old shares. (As amended, February 1906.)

On receipt of such application, the Bank shall publicly notify during a period of one month and at the expense of the applicant, the fact that the said shares have been lost, destroyed or stolen, and shall then deliver the new share certificate to the applicant, who shall be required to produce two persons satisfactory to the Bank as guarantors.

If during the above-mentioned one month the applicant recovers the shares in question, he shall immediately report the fact to the Bank, which shall publicly notify it at his expense.

Article 13. Should any objection be raised to the delivery of a new registered share certificate in place of one lost, destroyed or stolen, the Bank shall not deliver the new certificate until after the matter has been adjudicated by a court of justice. (As amended, February 1906.)

Article 14. Should one of the registered share certificates become defaced or mutilated, its owner may apply to the Bank for a new certificate, and must accompany his application with a statement of the particulars of the case as well as with the old certificate. (As amended, February 1906.)

The Bank, on the receipt of the said share, shall have its authenticity tested, when, if the latter be found satisfactory, a new share certificate shall be given in exchange. Should, however, the authenticity of the said share be found doubtful, the procedure indicated in the rules governing the case of a lost share shall be followed.

Article 15. The Bank, at the request of a shareholder, shall exchange registered share certificates of one denomination for those of another denomination, a fee of 20 sen being charged for each new share thus delivered. (As amended, February 1906.)

Article 16. The Bank shall levy a fee of 5 sen per share certificate for registering on a registered share certificate a new owner's name in place of that of the former owner, and a fee of 20 sen per share when new certificates are delivered in lieu of those destroyed, lost

or stolen, as also in lieu of those defaced or mutilated. (As amended, February 1906.)

Article 17. The Bank, during a period of one month immediately preceding each Ordinary General Meeting of Shareholders, shall suspend the registration of registered shares, such suspension being publicly notified in advance. (As amended, February 1906.)

Article 17 (2). Provisions relating to the disposal of unregistered shares shall be determined by the Chief Officers' Council. (Added, February 1906.)

CHAPTER III

Chief Officers

Article 18. There shall be one President, one Vice-President, three or more Directors and three or more Auditors of the Bank. (As amended, February 1906, June 1914 and May 1918.)

Article 19. The President and Vice-President shall be appointed by the Government, for a term of five years, from among the shareholders owning each at least 200 shares of the Bank. (As amended, February 1906.)

The Directors shall be appointed by the Government, for a term of three years, from among candidates elected at a General Meeting of Shareholders, the qualifications of such candidates to be ownership of at least 100 shares each, and the number of candidates to be twice that of the Directors to be appointed. (As amended, February 1906.)

The Auditors shall be elected by a General Meeting of Shareholders for a term of two years from among shareholders owning at least sixty shares each. (As amended, February 1906.)

Any vacancy among the Directors or Auditors shall be filled by election at a General Meeting of Shareholders.

Article 20. The President, Vice-President and Directors during their respective terms of office shall be required to deposit with the Auditors of the shares of the Bank owned by them—200 shares in the case of the President and Vice-President respectively and 100 shares in the case of each Director. (As amended, February 1906.)

The shares thus deposited shall not be returned to their owners, even on the latters' retirement from office, until all the documents mentioned in Article 190 of the Commercial Code shall have been presented to a General Meeting of Shareholders and shall have been accepted by such Meeting.

Article 21. The duties and privileges of the President shall be as follows:

(1) To represent the Bank in all its business matters.

(2) To sign his name on all share certificates, debentures and other documents having reference to the rights and duties of the Bank.

(3) To carry on the entire business of the Bank in accordance with the provisions of its Laws, Ordinances and By-laws, as well as the resolutions of the General Meeting of Shareholders and of the Chief Officers' Council.

(4) To preside at the General Meeting of Shareholders and the Chief Officers' Council.

Article 22. The Vice-President and Directors shall assist the President and shall have charge of different departments of the business of the Bank or participate in the charge of the same. (As amended, February 1906 and May 1918.)

Article 23. The Auditors shall inspect the business of the Bank.

Article 24. The remuneration of the President, Vice-President, Directors and Auditors shall be fixed at a General Meeting of Shareholders. (As amended, February 1906.)

CHAPTER IV

CHIEF OFFICERS' COUNCIL

Article 25. The Chief Officers' Council shall decide questions relating to the rules for the business procedure of the Bank and other important business matters.

The President, Vice-President and Directors shall together constitute the Chief Officers' Council. (As amended, February 1906.)

Article 26. The Chief Officers' Council shall be convened by the President whenever he considers it necessary.

A meeting of the Chief Officers' Council may not be held unless there are present at least one-half of the members. Provided, however, that if such quorum be unobtainable on account of unavoidable reasons, as for example travel, sickness, etc., and if the business necessities of the Bank call for immediate action by the Chief Officers' Council, then such members as are present may make decisions, and the particulars of such decisions shall be reported at the next meeting of the Chief Officers' Council.

Decisions of the Chief Officers' Council shall be made by a majority vote, and in case of a tie the Chairman shall decide.

Article 27. All decisions made by the Chief Officers' Council shall be entered in the minutes of the Council, to which the members present shall attach their signatures.

CHAPTER V

General Meeting of Shareholders

Article 28. A General Meeting of Shareholders shall be either ordinary or extraordinary.

Article 29. The Ordinary Meeting of Shareholders shall be held twice each year, in the months of February and August. The President, at least three weeks previous to the day appointed, shall give notice to each holder of registered shares and make advertisement of the day, hour, place and purpose of the meeting as well as of the subjects to be discussed. (As amended, February 1906.)

An Ordinary Meeting of Shareholders shall examine the documents presented by the President, in accordance with the provisions of Article 190 of the Commercial Code, and also the report presented by the Auditors. They shall also decide questions relating to the declaration of dividends.

Article 30. An Extraordinary Meeting of Shareholders shall be convened by the President, should he consider such a step necessary, or should he be requested to do so, provided that such request be accompanied by a statement of the objects of the Meeting, and the reasons for convening it, and be signed by shareholders who own shares amounting to at least one-tenth part of the entire capital of the Bank. The President shall fix the day, hour and place of the Meeting and shall notify these, as well as the object of the Meeting and the subject or subjects to be discussed, to each holder of registered shares and shall make advertisement at least three weeks prior to the Meeting. (As amended, February 1906.)

An Extraordinary Meeting of Shareholders shall also be held when considered necessary by the Auditors.

In case the holders of unregistered shares wish to make the request mentioned in the first paragraph they shall place their shares in the custody of the Bank. (Added, February 1906.)

Article 31. Every shareholder shall have the right of one vote for each share owned by him.

Article 31 (2). The holders of unregistered shares cannot use their power of voting unless they place their shares in the custody of the Bank one week before the day of the Meeting. (Added, February 1906.)

Article 32. A shareholder may vote at a General Meeting of Shareholders through a representative ; but only a legal representative or a shareholder of the Bank may act as such.

The Bank's Chief Officers and other employees may not in any case perform the representative function mentioned in the last paragraph, except when acting as legal representatives.

Article 33. Persons intending to act as representatives at a General Meeting of Shareholders shall present documents duly certifying the powers entrusted to them.

Article 34. (Struck out, February 1906.)

Article 35. (Struck out, February 1906.)

Article 36. All decisions adopted at a General Meeting of Shareholders shall be recorded in the minutes of the Meeting, and the signatures of the President, Vice-President, Directors and Auditors shall be appended. (As amended, February 1906.)

Article 37. The members present at a General Meeting of Shareholders shall record their names—representatives stating themselves to be such—in a book kept for that purpose, on the day of the Meeting and prior to its opening.

The book containing the names of the members present shall, after receiving the signatures of the President, Vice-President, Directors and Auditors, be appended to the Minutes of the Meeting. (As amended, February 1906.)

CHAPTER VI

Business

Article 38. The Bank shall engage in the following lines of business :

(1) Making loans on the security of national loan bonds, prefectural or municipal loan bonds, or the debentures and shares of companies.

(2) Subscribing for, or underwriting national loan bonds, prefectural or municipal loan bonds, or debentures of companies.

(3) Receiving deposits of money and undertaking the custody of goods entrusted to it for safe keeping.

(4) Undertaking trust business relating to secured debentures. (As amended, May 1905 and August 1922.)

(5) Discounting bills. (Added, May 1905, and as amended May 1911.)

(6) Buying and selling Bills of Exchange and Documentary Bills of Exchange. (Added, June 1914.)

(7) Making loans on mortgages of estates (*zaidan*) created by virtue of special laws. (Added, May 1905.)

(8) Making loans on mortgages of land and buildings belonging to factories. (Added, May 1911.)

(9) Making loans on mortgages of land and buildings in cities and in towns approved by Imperial Ordinance. (Added, May 1911.)

(10) Making loans on mortgages of ships, including those under construction, which shall be redeemable by annual instalments within a period not exceeding fifteen years or at a fixed term of not more than five years. (Added, May 1918.)

(11) Making loans on security of shipbuilding materials or appurtenances. (Added, May 1918.)

12. Floating national loan bonds, prefectural and municipal bonds, and debentures and shares of companies, and to

receive payments on the same and to effect the payment of principal and interest or dividends on the above. (Added, August 1927.)

(13) Carrying on business sanctioned by the Minister of State for Finance in accordance with Laws or Ordinances. (Added, May 1905.)

The total sum of the loans mentioned in clause 9 of the preceding paragraph shall in no case exceed two-thirds the amount of the Bank's paid-up capital. (Added, May 1911, and as amended May 1929.)

Article 38 (2). The Bank may with the sanction of the Minister of State for Finance subscribe for or underwrite the shares of companies. (Added, May 1918.)

Article 39. (Struck out, August 1922.)

Article 39 (2). The mortgages accepted by the Bank must all be first mortgages; but this does not apply, if they may be converted into first mortgages in course of redeeming an old loan with a new loan furnished by the Bank, or if additional mortgages are furnished to the Bank. In the former case, the amount of money used to redeem the old debt shall not be handed to the debtor, but shall be designated for the redemption. (Added, May 1918.)

Article 39 (3). Ships accepted by the Bank as subjects of mortgages shall be only those which reckoning from the date of launching will be less than twenty-five years old at the date of the payment of the last instalment of redemption.

Ships or ships under construction accepted by the Bank as subjects for mortgage must be covered by insurance. (Added, May 1918.)

Article 39 (4). The insurance for ships accepted as subjects of mortgages by the Bank shall be such as are insured by an insurance company or companies which are deemed reliable by the Bank. The contract for this insurance must be continued during the period of the loan.

If the contract for such insurance is not continued during the period of the loan, the Bank may require the redemption of the whole loan even before the expiration of the period of redemption. (Added, May 1918.)

Article 39 (5). The amount to be loaned on mortgages of ships launched or of those under construction shall be less than two-thirds of their value estimated by the Bank, and less than four-fifths of the insured amount as well, provided that such amount shall not exceed the estimated construction value reduced by 4/100 per annum after launching. (Added, May 1918.)

Article 39 (6). The redemption of loans by annual instalments shall follow the decreasing instalment method, but may, in special cases, follow the equal or increasing instalment methods. (Added, May 1918.)

Article 39 (7). Regarding the redemption by annual instalments

of loans on mortgages of ships, an unredeemable period of less than two years may be created at the request of the debtors, but during such period interest on the loan shall not be exempted. (Added, May 1918.)

Article 39 (8). Those who have received loans redeemable by the payment of annual instalments may redeem the loan, partly or wholly, before the expiration of the stated period of redemption.

In case of the preceding provision, a fee of less than the three one-hundredths of the redeemable amount shall be imposed. (Added, May 1918.)

Article 39 (9). The Bank may, even before the expiration of the period of redemption, demand the redemption of the whole amount of the loan against any debtor who is neglecting payment of the annual instalments. (Added, May 1918.)

Article 39 (10). When the Bank deems that the value of the ships mortgaged for a loan has decreased and that a deficit has been produced in the ratio of valuation provided in Article 39 (5) of these By-laws against the balance to be redeemed, the Bank shall demand additional mortgages or may demand the redemption of the loan to the amount of such deficit. If the debtor fails to meet the demand above mentioned, the Bank can demand redemption of the whole loan even before the expiration of the period of redemption. (Added, May 1918.)

Article 39 (11). In case the ships mortgaged for loans are requisitioned for military use or employed or expropriated for public service, the Bank may demand the redemption of the loan even before the expiration of the period of redemption ; but this shall not apply to cases in which an indemnity or compensation therefor is deposited with the Bank, or proper securities are furnished. (Added, May 1918.)

Article 40. Loans made by the Bank shall not be for a longer term than five years, except in the case of loans specified in Article 38, paragraph 1, clause 10, and in cases of special necessity. (As amended, January 1903 and May 1918.)

Article 41. This Bank may devote such of its funds as are not employed in regular business to the purchase of national loan bonds, prefectural or municipal loan bonds, or the debentures and shares of companies or gold and silver bullion. (As amended, May 1911.)

Article 42. The Bank shall not come into possession of, or receive as subjects of mortgage, its own shares. (As amended, May 1905 and October 1920.)

The Bank shall not come into possession of its own debentures. An exception may be made, however, in cases when the Bank comes into possession of its own debentures for the purpose of redemption by purchase. (Added, October 1920.)

Article 43. The Bank shall not come into possession of real estate except in the cases mentioned below :

(1) Lands and houses necessary for its business purposes.

(2) Real estate received in liquidation of debts.

(3) Real estate received through the decisions of courts of justice.

The real estate mentioned in clauses 2 and 3 of the preceding paragraph shall be speedily disposed of by the Bank.

Article 44. The officers and other employees of the Bank shall not be allowed to become its debtors.

CHAPTER VII

Industrial Debentures

Article 45. The debentures issued by the Bank shall be of the face value of 20 yen or more and unregistered, and shall have coupons attached. They may, however, be changed into registered debentures at the request of subscribers or owners. (As amended, October 1920.)

Article 45 (2). The Bank may, in case it issues debentures of the face value of not more than 50 yen, do so by way of sale. (Added, October 1920.)

Article 45 (3). The Bank, when it desires to issue debentures by way of sale, shall give public notice of the period of sale and the particulars mentioned in the 1st, 2nd, and 3rd clauses of paragraph 2 of Article 203 of the Commercial Code. (Added, October 1920.)

Article 45 (4). Industrial debentures may also be issued by way of discount. (Added, October 1920.)

Article 46. The maximum amount of the debentures which the Bank may issue shall be ten times the amount of its paid-up capital; but the actual amount of such debentures shall in no case exceed the aggregate value of the assets represented by the moneys the Bank has loaned out at the time, together with the bills it has discounted and retains in its possession, and the national loan bonds, prefectural and municipal loan bonds as well as the debentures of companies in its possession, all calculated at their market values. Exceptions may be made, however, when debentures are to be issued at a reduced rate of interest in order to replace therewith others previously issued; or when they are issued in accordance with Article 12 (2) of the Law of the Nippon Kogyo Ginko. (As amended, May 1905 and May 1911.)

Article 47. The interest on the Bank's debentures shall be paid twice a year, in the months fixed at the time the said debentures are issued, in exchange for coupons. An exception may be made, however, with regard to the interest on debentures issued in accordance with Article 12 (2) and Article 13 (4) of the Law of the Nippon Kogyo Ginko. (As amended, May 1905 and October 1920.)

Article 48. The debentures shall be redeemed within the term of thirty years reckoned from the year of their issue, and the redemption may be effected by the process of drawing lots, according to

the convenience of the Bank. An exception may be made, however, in the case of redeeming debentures issued by virtue of Article 12 (2) of the Law of the Nippon Kogyo Ginko. (As amended May 1905.)

Debentures issued by way of discount shall be redeemed within the term of one year. (Added, October 1920.)

Article 49. If debentures or interest-coupons are reported as destroyed, lost or stolen, the Bank shall make a public announcement, and not until they have been declared void of value shall the Bank deliver new debentures or interest-coupons. In the case of registered debentures, the rules laid down in Articles 11, 12, 13 and 14 shall be applied.

The expense connected with the issue of such public announcement shall be borne by the owner of the said debentures or interest-coupons.

Article 50. When registered debentures are converted into unregistered, or *vice versa*, or when new debentures are delivered in place of debentures which have been destroyed, lost, stolen, defaced or mutilated, the Bank shall demand a fee of 30 sen for each debenture.

When the names registered on debentures are to be changed, a fee of 15 sen shall be demanded for each debenture.

Article 51. Should the Bank find that loans made by it which constitute the basis of the debentures issued, are not paid back as stipulated, or should it fail to obtain full redemption of the debentures of companies which it holds, it shall redeem a part of its own debentures so as to reduce their total amount by an amount corresponding to the said unpaid loans or unredeemed debentures of companies; or, as an alternative, it shall make good the above deficit with other negotiable instruments.

Article 52. Should national loan bonds, prefectural or municipal loan bonds or the debentures of companies owned by the Bank depreciate in value below the required limit laid down in Article 46, the Bank shall make good the deficit either by furnishing other national loan bonds, prefectural or municipal loan bonds, or the debentures of companies; or by redeeming such an amount as shall restore the prescribed balance. (As amended, May 1905 and May 1911.)

CHAPTER VIII

Accounts

Article 53. The business year of the Bank shall be from January to June and from July to December of each year.

The President shall, at the end of each half business year, draw up the balance sheet, the business report, as well as the various accounts ; and shall prepare a list of assessed properties, the profit and loss account, and the proposed rate of dividend to be declared, all of which documents shall be presented to the Ordinary General Meeting of Shareholders.

Article 54. Concerning the method of dividing the profits, the Bank shall first deduct from the gross profits the various payments to be made, the interest to be paid, the salaries and travelling expenses and all other business outlays, as well as the various losses if any, and then taking the remaining amount as the net profit, shall divide it as follows :

(1) Eight per cent. or more of the net profit, as a reserve against losses.

(2) Two per cent. or more of the net profit, as a dividend equalisation reserve.

(3) After the above two items have been deducted, an amount corresponding to 5 per cent. per annum of the paid-up capital of the Bank shall be set apart from the remaining portion of the net profit and shall be regarded as the first dividend to be declared.

(4) After the above three items have been deducted, 10 per cent. or less of the remaining portion of the net profit shall be set apart as a bonus to the Chief Officers of the Bank ; and if, after these four items have been deducted, there be any portion remaining, it shall be divided among the shareholders as a second dividend, or appropriated to a special reserve fund, or transferred to the next year's account. (As amended, January 1903.)

Article 55. Should the net profit of the Bank after subtracting the appropriations for the first and second reserves mentioned in the

preceding Article, fall short of a sum representing 5 per cent. of the paid-up capital, then the Bank shall receive from the Government a subsidy sufficient to enable the Bank to pay a dividend of 5 per cent.; but the period of the Government's liability under this Article shall be limited to five years, reckoned from the Bank's first business year.

Article 56. The reserve against losses is intended to make up any deficit in the capital of the Bank caused by losses in business.

The dividend equalisation reserve is intended to ensure as far as possible the payment of a uniform rate of dividend, not less than 5 per cent.

During five years reckoned from the beginning of the first business year, the reserves mentioned in the foregoing paragraphs shall be applied only in the event of a deficiency still remaining after the stipulated Government subsidy has been received.

Article 57. The Bank may not divide any profit among its shareholders without the permission of the Minister of State for Finance.

The date of the payment of dividends shall be fixed by the President, and a notification shall be issued to the holders of registered shares and an advertisement of the same shall be made. (As amended, February 1906.)

Supplementary Regulations

Article 58. Seventy-five thousand shares amounting to 3,750,000 yen out of the 12,500,000 yen increased capital, which was approved by resolution of the Extraordinary Meeting of Shareholders held on August 7, 1917, shall be issued at face value or above. (Added, August 1917.)

Article 59. One hundred thousand shares amounting to 5 million yen out of the 20 million yen increased capital, which was approved by the resolution of the Extraordinary Meeting of Shareholders held on August 5, 1919, shall be issued at face value or above. (Added, August 1919.)

THE SIXTY-NINTH REPORT OF THE INDUSTRIAL BANK OF JAPAN

(Nippon Kogyo Ginko)

FOR THE HALF-YEAR ENDING JUNE 30, 1936

Submitted at

THE GENERAL MEETING OF SHAREHOLDERS

Held at the Tokyo Bankers' Club on Wednesday, August 5, 1936

GENTLEMEN—

In opening to-day the sixty-ninth general meeting of the shareholders of this bank I wish as usual to submit for your consideration a few remarks on economic developments in this country and the bank's operations during the half-year ending June 30, 1936.

At the beginning of the term under review, optimistic views as to the outlook were held in our economic circles and it was anticipated that the then favourable situation would generally continue during the term. But in the United States, Congress passed the " Bonus Bill " ; the huge sum of 2½ billion dollars was released, and as a result of such a vast financial operation we feared dollar inflation, with a consequent adverse influence upon our economic circles. With the fruitless adjournment of the London Naval Disarmament Conference, a tinge of nervousness became observable in the mutual relations of the principal Powers. Furthermore, the outbreak of the February 26 incident in Tokyo just after the general election, when the political outlook was yet hazy, caused a tremendous sensation in the country and abroad. It shocked our economic community exceedingly and all the stock exchanges suspended their dealings for some time, while profound concern was entertained over the final outcome of the disquieting affair. Uncertainties regarding the new financial policy of the succeeding Government were especially prevalent, for the present Ministry failed to give concrete expression to the policies it intended to pursue, though, when the new Government came into office, a declaration was made regarding the enforcement of general administrative reform, including an increase of taxes by the revision of taxation and State control of certain important industries. With future prospects so obscure, the stock exchanges and other markets were, therefore, practically undecided

what attitude to assume, and the situation remained unclarified while gloomy sentiments overshadowed the commercial world. But with the lapse of time people grew more confident and uneasy feelings gradually subsided. Moreover, it became evident from the discussions in the special session of the Diet that the Government had nothing so radical in its programme as the alteration of the existing economic order of the country, but only intended to strengthen the national defence, and this so reassured business at large that it resumed normal activities, although martial law still remained in force over Tokyo and the neighbouring area. Calmness, in fact, reigned over the rest of the term.

In the money market, the easy situation, which had suffered a reverse during the preceding term, prevailed again from the outset of the period, and banks took to active investment of their redundant funds, with a result that the Government bonds sold by the Bank of Japan out of its holdings reached some 425 million yen by the middle of February. It was, therefore, no result of any sudden change in the tone of the money market that on February 29, when we were still in the midst of the shocking incident, bank notes in circulation had risen to 1,657 million yen and loans and discounts of the Bank to 1,165 million yen. But in March, as the applications for purchase of Government bonds continued on a large scale, most of the available funds in the market were absorbed and consequently short-loan rates firmed up, presenting a contradictory picture to the cheap money policy of the Government. Overnight loans, for instance, were quoted at 1·05 sen per diem, the highest rate since the end of 1933. In these circumstances, the Bank of Japan took steps to facilitate the supply of money by stopping the sale of Government bonds from April 2 and lowering its official minimum rate to 0·9 sen per diem on April 6, while the Government announced on April 7 its intention to issue 3·5 per cent. Conversion Bonds for the conversion of existing 5 per cent. Exchequer Bonds to a lower rate of interest. On April 9, the leading banks in Tokyo and Osaka agreed to lower the maximum interest rate on fixed deposits to 3·3 per cent. per annum, to take effect on the following day. In view of the positive measures for lowering money rates thus accentuated to a remarkable degree, we expected that the market would proceed to the stage of unprecedentedly cheap money, and yet, in spite of all, firmness in short loans showed no relaxation and the minimum rate was still quoted at 0·8 sen per diem. But later there were neither industrial nor commercial requirements for funds worth mentioning, and as the situation began to be relieved by the effect of the suspension of bond sales from the beginning of May, the market resumed an easy condition and progressed smoothly and favourably towards the close of the present term. As you may have noticed from the conditions in the money market stated above, the capital market was in a subdued mood early in the period, and some quarters strongly insisted that the uniform terms of debenture issues at

4·3 per cent. and at par are so excessively advantageous to the borrowers, as evidenced by the average yield of debentures at issue during the present term to which I shall refer presently, that they should be fundamentally revised. As a result, not only was it impossible for secondary companies to issue debentures at the said rate, but even the leading companies also experienced a difficulty in their issuance. This state of things became so pronounced for some time after the February incident that the market was quite unable to find its way out of the awkward position. In March the situation took a turn for the better, for the positive cheap money policy of the Government became unmistakable by that time, and there were active investments in securities in the market which enabled security dealers to clear off the securities in their portfolios. Such heavy purchases of securities in turn brought about a stringency in the monetary conditions, which exerted restraining influences in the new capital market and most of the issues projected were postponed until the middle of May, when the Government policy on cheap money began to take effect. Since then, with the general interest aroused in the buying of Government bonds, the debenture issues that had been waiting for the opportunity of flotation were resumed, and for a month and a half from that time until the end of the period, the market displayed considerable activity. The amount of Government bonds issued during the period reached 1,205 million yen, local and municipal loans 150 million yen, bank debentures 131 million yen and corporation capital issues 344 million yen, bringing up the total to 1,831 million yen, which showed an increase of 535 million yen as compared with the corresponding period of last year. This increase was mainly due to a great expansion of Government issues, for the flotations by local Governments as well as banks and companies indicated a decline. Of the total amount conversions represented 65 per cent., with Government loans 74 per cent., local and municipal obligations 68 per cent., bank debentures 35 per cent. and company debentures 45 per cent. of the respective totals. The average yield of Government bonds at issue was 3·913 per cent., local and municipal loans 4·076 per cent., bank debentures 4·266 per cent. and company debentures 4·382 per cent., which showed an all-round decline of 0·204 per cent., 0·206 per cent., 0·008 per cent. and 0·200 per cent. respectively from those of the corresponding period of last year. It is remarkable that conversions of long-term debts, especially Government and local obligations, should have been carried out successfully to such an extent; I think it is sure to add a page showing an accelerating pace in the advance of the cheap money trend to the history of long-term rates of interest. As for the average maturity, bank debentures were extended by two years and seven months to fifteen years and nine months, and company debentures by eleven months to nine years and four months, while, on the contrary, local obligations were shortened by two months to sixteen years, and Government issues

suffered a substantial contraction of eight years and eleven months and were made to mature in eighteen years. It is thought to be just an inevitable temporary phenomenon that the maturity of both Government and local loans should have shown a contraction by the enforcement of a cheap money policy. The number of companies which floated debentures during the present period declined sharply to less than half of the figure in the corresponding period of last year, although the amount of issuance by them registered only a slight decline. Looking over the capital issue market during the term under review, we see that it remained stagnant for the greater part of the period, despite the fact that quite a lot of debentures were placed at the end of the term. This inactivity of the market was apparently due to the cautious sentiment prevailing in the early part of the period on account of the excessively advantageous terms for the borrowers, the absence of clarification regarding the financial policy of the Government and the fluctuations in the monetary conditions after the February incident.

While the issue terms, in some cases, are inevitably driven excessively low by the progress of a cheap money tendency, it is usually the case for the rates to come down to unduly low levels either under the pressure of the borrowing companies, who, with an eye only to their own interest, try to gain more advantageous terms every time they make issues, or as a result of the unscrupulous competition among the underwriters neglecting the proper revision of terms in conformity with existing market conditions. Moreover, even sub-underwriters sometimes venture to take over the issues without proper foresight and unmindful of the difficulties they may experience in the disposal of them. These are, I think, the principal causes responsible for the birth of excessively low issue terms. Such questionable practices are likely to prove detrimental to the sound development of the market and exert an evil effect on industrial expansion. For these reasons, it is important for the borrowers and bankers concerned to co-operate in rationalising the issue practice, so that the market may function smoothly to the benefit of industrial development. In this regard our bank has been endeavouring for some years to materialise the improvement.

Turning to industrial conditions in the present term, we find that the number of joint stock companies newly established reached 1,348 with authorised capital amounting to 355 million yen, which showed decreases of seventeen in number and 36 million yen in the amount of their capitalisation as compared with the corresponding period of the preceding year. The number of companies which increased their capital during the present term registered 333, involving 193 million yen, showing a decline of sixty-nine in number and 193 million yen in amount of capital increase over the corresponding figures a year ago. The greater part of the decrease in the number of new establishments was accounted for by chemical, electric, and sundry industries, while the shrinkage in the number

of capital increases was most noticeable in the lines of chemical, manufacturing, transportation and traffic, and natural industries. It seems that the expansion schemes in these industries either by establishment of new companies or capital increases of the existing institutions, which had been in full swing for some time previously, happened upon a sudden check, though there was no denying that the February incident represented a discouraging influence. As for the conditions of existing companies, most of those engaged in principal industries are enforcing a control over their production or putting into operation an agreement as to the marketing of their manufactures, but at the same time they are enlarging factory equipment to increase their productive capacities, or undertaking additional enterprises. This trend in the industrial companies is entirely due to the fact that the prospective growth of requirements for munitions obliged them to enlarge the present equipment of their factories, and that it was necessary in some branches of our industry to engage in additional undertakings. Spinning companies, for example, are engaging additionally in rayon or staple-fibre production. I need not say that the present situation is very complex and demands a cautious attitude on the part of industrialists. It is pleasing, therefore, to find that many companies are on the whole applying salutary methods in the management of their business. Thus, during the present period, more than 70 per cent. of all the industrial companies kept their dividends unaltered or without distribution of profits, and among the remaining 20 per cent. or so the cases of increases or decreases in dividend payments were almost equal in number. Although increased dividend payments were made by some companies in the lines of electric power, oil, iron and steel, shipbuilding, artificial fertiliser and sugar industries, a great majority of the companies in other branches showed a prudent attitude in the distribution of their profits. This conservative attitude, however, had no connection with their earnings in the present term, but with the preparation for future needs, especially for the increase of taxation. Although it is unquestionably true that the growing requirement of munition supplies is still affecting greatly the fundamental prosperity of all our industries, it must also be noted that, with the growth of an emergency situation both at home and abroad, prudent and cautious management of their enterprises was strengthened among our industrialists.

The external trade of Japan for the present term amounted to 1,218 million yen in exports and 1,489 million yen in imports, showing an adverse balance of 271 million yen, for which substantial decreases in exports of such staple merchandise as raw silk, and cotton and silk fabrics on the one hand, and increases in imports of wool, cotton, oil and more than twice as large imports of sundry articles on the other were responsible. Miscellaneous goods advanced conspicuously in imports and more particularly in exports, far outstripping the exports of staple goods. This is a characteristic feature

of our foreign trade in these years, and, at the same time, proves the development of small and medium-sized manufacturing enterprises and of new-born industries. While increase in imports of raw materials and manufactures for further manufacturing, whether for staple or sundry merchandise, is undoubtedly a proof of prosperous conditions in our industry, we should not rest content where we are standing now if we intend to accomplish further expansion in trade. It is, therefore, most important that our industrialists and business-men should hereafter do their utmost for the development of heavy industry by encouraging the export of its manufactures ; for it may not only better the country's international accounts in peace-time, but will enable them to rely upon the fullest capacities of the said industries to meet the indispensable demands of the country in time of national emergency.

Now for a few brief remarks on conditions abroad. Both Great Britain and the United States have been seriously occupying themselves in carrying out their respective policies aiming at industrial prosperity and trade expansion in an effort to strengthen their economic position. Particularly, Great Britain seems to be putting a great deal of painstaking labour into the solution of difficulties she has been confronting in various parts of the world because of her vast and widely scattered dominions and possessions, and it is plain that these endeavours are being gradually rewarded in a fruitful manner. But the fact that these two countries are adopting highly protective measures by tariff walls and other trade barriers against our exports to check the advance of our goods into the markets under their influence is a matter of grave concern for our future external trade. France, on the other hand, has been seriously troubled by her unsteady political conditions, and lately her economic and financial strength has also been impaired. It seems consequently to be increasingly difficult for her to maintain the lofty position of leader of the gold bloc countries, and the franc was repeatedly reported to be on the brink of collapse. Should her currency once cease to be linked with gold, it would have far-reaching repercussions on European countries, and we must, of course, not ignore its effects on us. That is the reason why we have been paying watchful attention to the changes in her economic situation, but fortunately the worst did not happen during the present period. It was an unfavourable feature during the period, however, that the political situation of the European continent became increasingly uneasy with the open appearance of a fully and powerfully rearmed Nazi Germany. It was just like the ringing of an alarm-bell, and a strained atmosphere prevailed among other European powers. The political situation in China is still far from being stabilised, and in North China the Government has not yet been established on a firm basis. As for Manchoukuo, I need hardly add that we are deeply concerned for the future welfare of that country. Thus, not only in conditions at home but also in our relationships with external spheres do we

find extraordinary phases and aspects to dominate, demanding our serious consideration. As I have told you on previous occasions, economic nationalism is now the order of the world, and we can trace its harmful influence on our overseas trade of the present period. How to recover ourselves in the older markets, where prohibitive trade barriers stand high against our merchandise, and also to maintain in our grip the newly acquired markets, where our exports have begun to dwindle, is a very important question both for the management of our industries as well as for the betterment of our international balance of payment, and requires the closest co-operative investigations of the Government and business men for its solution.

In conformity with the actual economic situation as stated above and in order to contribute to the prosperity of our industry, we have applied ourselves wholeheartedly to meet industrial requirements for capital. For the continuous reduction of the cost to our loan resources, we placed during the term two issues of Industrial Bank debentures amounting to 35 million yen and also discount issues to the amount of 21,098,000 yen, aggregating in total 56,098,000 yen, at lower rates of interest. We redeemed, on the other hand, thirty issues of our debentures bearing high interest amounting to 46,666,000 yen by repayments at or in advance of maturity, or by partial redemptions. We may add further that during the period we handled, single-handed or in co-operation with other banks, a municipal loan of the City of Tokyo amounting to 21,328,000 yen, a Government loan of Manchoukuo 30 million yen, three divisions of issue by the South Manchuria Railway Company 125 million yen and an issue of the Toyo Development Company 20 million yen, altogether aggregating 196,328,000 yen. Moreover, under the bank's trusteeship, mortgage debentures of the Daido Electric Power Company amounting to 15 million yen, the Onoda Cement Manufactory 3,500,000 yen, the Japan Mining Corporation 25 million yen and of the Japan Foodstuff-Products Company 13 million yen, reaching in total 56,500,000 yen, were issued and taken up by us. We also participated as the trustee in a secured issue for 1,300,000 yen of the Okayama Tramway Company, which was taken up by the Nikko Securities Company. Further, we have taken up in co-operation with the Mitsubishi Trust Company the entire amount of another similar issue for 6 million yen of the Shinano Electric Company.

I now turn to the bank's financing of small industrialists and traders. As credit business for them has increased importance in the existing circumstances, we have laid stress on the bank's transactions in this category and, therefore, simplified as much as we can the inquiries, formalities and procedures necessary in granting loans for the benefit of such borrowers. Consequently, applicants for credit increased during the term, with a conspicuous growth in the number of effective applications for which we made advances. In the following instances we extended our facilities in a particularly generous manner: first, we supplied those who are engaged in automobile

traffic business with the necessary funds to purchase new vehicles, especially home-made ones to encourage the use of domestic makes ; secondly, we made advances under the collateral security system to those who were in need of capital for purchase of raw materials or for payment of wages ; and in the third place, we granted loans without any security to Trade, Industrial and Exporters' Associations out of the capital account resources of the bank. Of the applicants for accommodation in this category, a great majority were manufacturers of machinery and tools, and those connected with new-born industries in some way or other also increased, which indicates how appropriate the bank's operations in this field are to the present requirements for funds. As, however, it is thought inadequate with the present number of the bank's branches to employ ourselves in this financing business on a nation-wide scale, we have formulated a plan for the extension of operations under which we are going to enter into negotiation with local banks to make an arrangement that they engage in the business as the bank's agencies in their respective localities.

As I reported on the preceding occasion, the governing law of the Central Cash Office of Trade and Industrial Associations was enacted in the last special session of the Diet, and after necessary preparations and arrangements for the setting up of the said institution it will be put into practice from November 1 of this year. We have participated very closely in its establishment, and our connections with the said organ will become yet closer hereafter, as its actual business operations will be transacted by this bank. I hope that by the proper functioning of the financial organ the supply of credit for the Trade, Industrial and Exporters' Associations will be rendered very smooth and that they will be put on the right track for their development.

As you will find in the semi-annual report, the bank's business for the present term shows a favourable result, and the proposed distribution of profits is intended to place our institution on a still sounder and safer foundation, with ample appropriations for the writing-down of the bank's property. The gross earnings reached 16,021,568 yen as against gross expenditure of 13,938,362 yen, showing a net profit of 2,083,206 yen, to which has been added a balance of 1,353,853 yen brought forward from the preceding term, bringing the total to 3,437,059 yen, which is the profit for the present term. Setting aside 400,000 yen for reserve against losses, 100,000 yen for dividend equalisation reserve, and 1,357,059 yen to be carried forward to the next term, a sum equal to 6 per cent. per annum on the paid-up capital has been designated as dividend to the shareholders.

I now submit this proposed disposition of profit for your approval.

On the 5th day of August, 1936.

TOYOTARO YUKI.

Governor of the Industrial Bank of Japan.

LIABILITIES AND ASSETS. JUNE 30, 1936

Dr. Cr.

Liabilities	Yen
Capital paid up, 1,000,000 shares of Yen 50 each	50,000,000·00
Reserve against Losses	18,674,797·50
Dividend Equalisation Reserve	4,390,800·00
Special Reserve	5,550,000·00
Dividends unclaimed	81,763·50
Debentures outstanding	288,853,949·62
Debenture Interest unclaimed	20,283·14
Fixed Deposits	29,216,473·40
Current Deposits	12,271,844·71
Special Current Deposits	11,302,689·87
Deposits at Notice	4,851,930·33
Special Deposits	18,735,419·14
Partial Repayment	1,222,091·04
Special Loans contra	47,350,887·39
Subscription for Debentures, Shares, etc.	1,206,802·50
Funds Deposited for Payment of Debentures, Coupons, etc.	35,900,774·20
Bills Sold	5,343·41
Correspondents' Accounts	55,405·74
Special Funds from Loans	1,724,785·94
Suspense Accounts	5,454,685·03
Profit for the Half Year	3,437,059·12
Total	540,307,785·58

Assets	Yen
Fixed Loans	208,800,679·66
Overdraft	745,376·60
Bills Discounted	120,840,053·24
Call Loans	32,640,000·00
Special Loans	47,350,887·39
Bills Bought	1,687·76
Correspondents' Accounts	954,970·70
Government Bonds	16,970,075·64
Municipal Bonds	3,906,900·00
Debentures	40,607,258·02
Stocks	7,065,195·60
Foreign Securities: Government Bonds, Stocks, etc.	10,993,946·31
Current Deposits with Banks	2,987,799·62
Special Current Deposits with Banks	8,688·41
Funds in Agencies for Payment of Debentures, Coupons, etc.	32,661,790·62
Bank Premises and Furniture	5,335,319·74
Properties acquired through Liquidation of Debts	1,296,953·97
Discounts of Debentures Unexpired	229,600·00
Difference on Subscription of Debentures	2,013,384·48
Special Funds deposited with the Bank	1,050,000·00
Building Enlargement Account	234,847·41
Suspense Accounts	363,450·27
Cash on Hand	3,248,920·14
Total	540,307,785·58

PROFIT AND LOSS ACCOUNT FOR THE HALF-YEAR ENDING JUNE 30, 1936

Dr.

	Yen	Yen
To Gross Loss		13,938,362·61
Interest on Deposits, etc. ...	6,084,728·47	
Discounts allowed	58,420·34	
Debenture Interest ...	4,935,240·60	
Debenture Discounts ...	176,800·00	
Loss on Sale of Securities ...	54,004·00	
Commissions	242,958·02	
Taxes	349,481·58	
Salaries	662,407·64	
Business Expenses: Repairs, Travelling, etc.	426,259·63	
Debenture Inventory Re-adjustment	366,383·91	
Depreciation on Bad and Doubtful Debts, on Premises and Furniture, etc.	581,678·42	
Total	13,938,362·61	
To Net Earnings		3,437,059·12
Reserve against Losses ...	400,000·00	
Dividend Equalisation Reserve	100,000·00	
Dividend (6% per annum) ...	1,500,000·00	
Bonuses to officials ...	80,000·00	
Balance carried forward to Next Account	1,357,059·12	
Total	3,437,059·12	
Total		17,375,421·73

Cr.

		Yen
By Gross Profit		16,021,566·61
Interest on Loans, etc. ...	9,830,236·35	
Discounts received ...	2,730,311·63	
Interest from Securities held	1,523,823·09	
Dividends	70,968·49	
Profit on Sale and Redemption of Securities ...	88,536·61	
Commissions	1,591,976·59	
Sundry Profit	160,893·53	
Miscellaneous Income ...	24,822·32	
Total	16,021,568·61	
Balance from Last Account ...		1,353,853·12
Total		17,375,421·73

THE SEVENTIETH REPORT OF THE INDUSTRIAL BANK OF JAPAN

(Nippon Kogyo Ginko)

FOR THE HALF-YEAR ENDING DECEMBER 31, 1936

Submitted at

THE GENERAL MEETING OF THE SHAREHOLDERS

Held at the Tokyo Bankers' Club, on Friday, February 5, 1937

GENTLEMEN—

In opening to-day the seventieth general meeting of the shareholders of this bank, I wish as usual to submit for your consideration a few remarks on economic developments in this country and the bank's operations during the half-year ending December 31, 1936.

During the term under review, the uneasiness caused by the February 26 incident was gradually removed, and business and industry, stimulated by the unusual activity of the armament and munition industries, generally displayed a fairly prosperous aspect. Foreign trade also achieved a remarkable expansion last year, with the total amount of exports and imports for the whole year amounting to the unprecedentedly high figure of 5,700 million yen. But exports were affected by the rising tide of economic nationalism among the principal nations of the world and the rate of increase slightly declined, while, on the other hand, imports of various raw materials heavily increased, which caused the trade balance to turn substantially against us. Towards the latter part of the present term, the capital market was dealt a blow by the announcement of the Government's new taxation scheme ; and the short loan market was, for a time, stringent in tone, due to excessive purchases of Government bonds by banks. This tight monetary condition was relieved through the release of funds by the Treasury Deposit Office late in November, and after that the market took a calm turn and sent off the year with easy money. In the conditions stated above, the prices of shares and commodities remained steady ; and the amount of the bills cleared, the indices of commodity prices, the volume of National Railways freight transportation, the promotion of new industrial enterprises, etc., tended to grow, indicating an

upward trend in our business and industrial prosperity. Foreign exchange, however, developed a weakness after the gold bloc countries had collapsed, and the rates are still showing, even at present, erratic movements.

In the capital market, numerous bond and debenture issues were placed early in the period, helped by the easy monetary conditions, and considerable activity was noted. But the market was hard hit by the announcement in September of the taxation planned by the Government, which rendered untenable the basis of the yields on which debenture issues depend, and industrial capital issues have since been virtually stopped. The amount of Government bonds issued during the period reached 1,882 million yen, local and municipal loans 386 million yen, bank debentures 319 million yen, and corporation capital issues 490 million yen, bringing up the total to 3,077 million yen, which showed great increases of 1,538 million yen and 1,834 million yen respectively as compared with the corresponding periods of 1935 and 1934. Of the total amount conversions represented 66·6 per cent., showing also a considerable increase compared with both the 44·3 per cent. and 35·4 per cent. of the same periods of the two preceding years. This increase was mainly attributable to the huge conversion operations of Government bonds carried out during the period. Conversions of company debentures did not show any perceptible difference during the term, and, on the contrary, a decline was noted in the amount for the whole year, which indicated that conversion operations for lower interest issues by industrial companies were almost completed and that new issues of company debentures had begun to increase with industrial requirements for fresh capital. The average yield of Government bonds issued was 3·706 per cent., local and municipal loans 4·021 per cent. and bank debentures 4·011 per cent., which registered a decline all round from those of the corresponding period of the preceding year. The fact that the average yield of company debentures alone rose by 0·140 per cent. as compared with the 4·414 per cent. of the same period of 1935 was solely due to the issuance in December of a few debentures bearing a very high interest, and by no means indicated a reversal of issue terms. The average maturities of bonds and debentures, except for bank debentures, showed a contraction. Government bonds suffered most in this respect, with their average maturity being shortened from 27·1 years to 15·2 years. This is thought to be an unavoidable result of the enforcement of the cheap money policy.

Turning to industrial conditions in the present term, we find that, supported by the sustained prosperity of the munition industries and the expansion of foreign trade, the earnings of industrial companies recorded continuous increase and the ratio of net profits against paid-up capital, in spite of its increase, also tended gradually upwards. Inquiry by the bank into the business conditions of 700 industrial companies in the period reveals that the average rate of

their profits was 12·30 per cent. and that of dividends 8·05 per cent., showing gains of 0·63 per cent. and 0·25 per cent. respectively over those of the preceding term. Security transactions, commercial, shipping, and other transportation and traffic businesses generally enjoyed, as well as manufacturing industries, lively trading during the term, indicating that the industrial prosperity had begun to spread over the distribution branch of our economic structure. As regards the disposition of profits thus increased, however, most of the companies inclined to put aside as much as possible for reserve funds at the expense of dividend payments. This tendency was particularly notable among the companies engaged in manufacturing industries, for the rate of their dividends showed, though trivial, a decline, despite the fact that their earnings registered an increase of some 3·80 per cent. Nothing can be more desirable for the sound management of industrial enterprises than such a salutary practice. The number of joint-stock companies newly established during the term reached 1,519 with authorised capital amounting to 444 million yen, which was an increase of 116 in the number of the companies promoted, but a decrease of 10 million yen in the amount of their capitalisation as compared with the same period of the preceding year. It is evident from this fact that most of the companies newly set up were still small in scale and capital. Classifying them according to their enterprises, we find that in the machinery manufacturing industry the number of the companies established and the amount of their capital registered a substantial gain, whereas both the number and amount sharply declined in other manufacturing industries. The number of companies which increased their capital during the term was 558, involving 824 million yen, showing conspicuous increases of 140 in number and 436 million yen in amount as compared with the corresponding period of the preceding year. And especially remarkable in this connection were chemical and electric industries.

The external trade of this country for the present term amounted to 1,533 million yen in exports and 1,349 million yen in imports, resulting in a favourable balance of 184 million yen. Compared with the corresponding period of the preceding year, it showed gains of 11·1 per cent. in exports, 12·3 per cent. in imports and 7·9 per cent. in surplus exports respectively. In our foreign trade of last year, exports of raw silk and cotton textiles suffered a decline in their rate of expansion, while imports of raw materials greatly increased. But the most prominent feature was that the export of miscellaneous goods made an outstanding advance, replacing staple merchandise. Import increases were most heavy in cotton, followed by considerable gains in wool, rubber, heavy and crude oils, and minerals, which testified to growing demands for raw materials consequent on the prosperity enjoyed by our industries, and more especially on the activity of the munition industries.

Now for a few remarks on conditions abroad. The less peaceable

disposition of the Red Army in the Far East created a very tense atmosphere on the border between Soviet Russia and Mongolia, and Manchoukuo, while the frequency of anti-Japanese violence in China unduly complicated the relations between the two countries. Our diplomatic negotiations with China to settle the differences came to a deadlock, delicate moves being carried on, the while, behind the curtain by Great Britain, the United States and Soviet Russia for the benefit of their respective interests. The reaction of these developments on Russo-Japanese relations was anything but propitious, and they became increasingly discordant. Circumstances being as described, the conclusion by this country of the Anti-Comintern Agreement with Germany in November, and closely following it, the Trade Agreement with Italy, tended to intensify the jealousy and suspicion of the nations concerned. In Europe, the failure of the London Non-Intervention Committee to check the further aggravation of the civil war in Spain ; the stirring-up of opposing feelings between the nations, precipitated as the result of the formation of the Fascist group of Powers by the totalitarian States as against the socialist group of Powers, particularly against Soviet Russia ; the disintegrating inclination of the French Little Entente encircling Germany, etc., provoked friction and confusion on all sides, and the situation was extremely strained. It is apparent that such a state of affairs has been driving the principal countries of the world to rearmament. As an important event in the international economy during the present term we can count the abandonment by France of the gold standard and the devaluation of the franc in September, which led to the collapse of the few surviving gold standard countries in Europe. Fortunately, it had no appreciable repercussion on this country.

In conformity with the actual conditions in the country and abroad as stated above, we have made every effort to fulfil the bank's mission as the industrial financial organ. During the term, we placed three issues of Industrial Bank debentures amounting to 1,203,000 yen at a lower rate of interest, and at the same time, in an endeavour to contribute to the easing of monetary conditions, we redeemed twenty-nine issues of our debentures aggregating in total 46,700,000 yen by means of repayments in advance of maturity or of partial redemptions. Moreover, we handled during the period, single-handed or in co-operation with other banks, the fourth series of the North-Manchuria Railway loan of Manchoukuo amounting to 30 million yen, nineteen issues of local and municipal loans 172 million yen, four issues of specific corporation debentures 153 million yen, and twelve issues of mortgage debentures 195 million yen, altogether aggregating thirty-six issues and 550 million yen, which registered marked increases of nine issues in number and 249 million yen in amount as compared with the corresponding period of the preceding year. As for the bank's financing of small industrialists and traders, we have applied ourselves to the business

with especial zeal in order to meet the needs of the current situation; and at the same time, in order to meet the convenience of borrowers, we have simplified, as much as we can, the inquiries, formalities and procedures necessary in granting loans. Consequently, applicants for credit further increased in number, with a conspicuous growth in the number of effective applications entitled to the bank's credit facilities. The number of applications reached, during the term, 1,606 and their amount 15,970,000 yen, of which the bank extended credit to 705 cases totalling 7,080,000 yen, corresponding to 44 per cent. of both the number and amount of original applications. It is discernible from our contacts with small industrialists and traders that the position of their enterprises has been somewhat improved, benefiting from the existing economic situation. We have, however, been advising them to abide by sound policy in business management so as first of all to place their enterprises on a solid basis and then proceed gradually to enlargement of plant and equipment.

The Central Cash Office of Trade and Industrial Associations has at length been founded in realisation of the long expressed desire of small industrialists and traders, and has been open to business from December 10 of last year, its actual business operations being transacted by this bank. Applications for credit made to the institution during the very short period from its opening of business up to the end of the year reached 101 in number and 2,110,000 yen in amount, out of which advances were made only to forty-four cases amounting to 270,000 yen, the remainder being left over to be handled in the next term, pending the completion of necessary inquiries. The result is, of course, not at all a flattering one for the institution to show, but it is as yet in its incipient stage of existence, and we must look for its full activity in the days to come.

Allow me to add a few words more before I conclude. The bank's business has made a remarkable development with years, and it is thought inadequate with the present number of branches to perform the bank's functions as the industrial financial organ to the full extent, and also to discharge competently the duties as the actual executive agent of the business operations of the Central Cash Office of Trade and Industrial Associations. We have, accordingly, decided to establish another branch of the bank at Hiroshima City, of which you will please take note, as we shall submit its details for your approval later on.

As you will find in the semi-annual report, the bank's business for the present term shows a favourable result, and the proposed distribution of profits is intended to place our institution on a still sounder and safer foundation, with ample appropriations for the writing-down of the bank's property. The gross earnings reach 17,182,824 yen as against gross expenditure of 15,099,362 yen, showing a net profit of 2,083,463 yen, to which has been added a balance of 1,357,059 yen brought forward from the preceding term, bringing the total to 3,440,522 yen, which is the profit for the present term.

Setting aside 400,000 yen for reserve against losses, 100,000 yen for dividend equalisation reserve, and 1,360,522 yen to be carried forward to the next term, a sum equal to 6 per cent. per annum on the paid-up capital has been designated as dividend to the shareholders.

I now submit this proposed disposition of profit for your approval.

On the 5th day of February, 1937.

ICHIMATSU HORAI,

Vice-Governor of the Industrial Bank of Japan.

LIABILITIES AND ASSETS, DECEMBER 31, 1936

Dr. | Cr.

Liabilities

Liabilities	Yen
Capital paid up, 1,000,000 shares of Yen 50 each ...	50,000,000·00
Reserve against Losses ...	19,074,797·50
Dividend Equalisation Reserve ...	4,490,800·00
Special Reserve ...	5,550,000·00
Dividends unclaimed ...	80,579·50
Debentures outstanding ...	244,477,415·58
Debenture Interest unclaimed ...	35,482·24
Fixed Deposits ...	37,806,564·69
Current Deposits ...	4,567,038·97
Special Current Deposits ...	14,073,839·36
Deposits at Notice ...	9,190,744·06
Special Deposits ...	166,736,120·05
Partial Repayment ...	1,311,277·61
Special Loans contra ...	47,350,887·39
Funds Deposited for Payment of Debentures, Coupons, etc. ...	37,073,184·71
Bills Sold ...	3,759·19
Correspondents' Accounts ...	84,482·38
Special Funds from Loans ...	2,384,286·36
Suspense Accounts ...	4,960,733·70
Profit for the Half Year ...	3,440,522·18
Total ...	652,701,515·47

Assets

Assets	Yen
Fixed Loans ...	228,020,339·24
Overdraft ...	889,326·28
Bills Discounted ...	126,793,030·66
Call Loans ...	103,450,000·00
Special Loans ...	47,350,887·39
Bills Bought ...	340·57
Correspondents' Accounts ...	391,807·32
Government Bonds ...	26,770,075·64
Municipal Bonds ...	3,906,900·00
Debentures ...	44,173,261·02
Stocks ...	7,046,345·60
Foreign Securities: Government Bonds, Stocks, etc. ...	10,993,946·31
Current Deposits with Banks ...	2,773,565·80
Special Current Deposits with Banks ...	8,463·13
Funds in Agencies for Payment of Debentures, Coupons, etc. ...	37,105,088·76
Bank Premises and Furniture ...	5,485,967·71
Properties acquired through Liquidation of Debts ...	1,297,271·86
Discounts of Debentures Unexpired ...	82,400·00
Difference on Subscription of Debentures ...	1,656,476·24
Special Funds deposited with the Bank ...	1,470,000·00
Building Enlargement Account ...	636,474·58
Suspense Accounts ...	338,680·95
Cash on Hand ...	2,060,866·41
Total ...	652,701,515·47

PROFIT AND LOSS ACCOUNT FOR THE HALF YEAR ENDING DECEMBER 31, 1936

Dr.

	Yen	Yen
To Gross Loss		15,099,361·50
Interest on Deposits, etc. ...	5,569,716·74	
Discounts allowed	63,847·75	
Debenture Interests ...	5,648,352·83	
Debenture Discounts ...	147,200·00	
Commissions	333,581·64	
Taxes	349,805·09	
Salaries	693,340·41	
Business Expenses: Repairing, Travelling, etc.	410,279·36	
Debenture Inventory Re-adjustment	356,908·24	
Depreciation on Bad and Doubtful Debts, on Premises and Furniture, etc. ...	1,526,329·44	
Total	15,099,361·50	
To Net Earnings		3,440,522·18
Reserve against Losses ...	400,000·00	
Dividend Equalisation Reserve	100,000·00	
Dividend (6% per annum)	1,500,000·00	
Bonuses to officials ...	80,000·00	
Balance carried forward to Next Account	1,360,522·18	
Total	3,440,522·18	
Total		18,539,883·68

Cr.

	Yen	Yen
By Gross Profit		17,182,824·56
Interest on Loans, etc. ...	10,890,741·65	
Discounts received ...	2,450,856·50	
Interests from Securities held	1,502,361·23	
Dividends	292,009·04	
Profit on Sale and Redemption of Securities ...	25,714·10	
Exchange Profit	60,393·81	
Commissions	1,765,783·65	
Sundry Profit	152,285·59	
Miscellaneous Incomes ...	42,678·99	
Total	17,182,824·56	
Balance from Last Account ...		1,357,059·12
Total		18,539,883·68

THE BANK OF TAIWAN

THE ORGANISATION ACT OF THE BANK OF TAIWAN

Promulgated by Law No. 38, on the 30th day of March, the 30th Year of Meiji (1897)

Article 1. The Bank of Taiwan shall be a joint-stock company and shall establish its Head Office in the Island of Taiwan.

Article 2. The Bank of Taiwan may, subject to the approval of the competent Minister of State, establish branch offices and agencies in important localities and enter into correspondence with other banks.

The competent Minister of State may, whenever he shall deem it necessary, order the Bank of Taiwan to establish branch offices and agencies.

Article 3. The term of existence of the Bank of Taiwan shall be full twenty years from the date of its charter; but the said term may, with the sanction of the Government, be extended by resolution of a General Meeting of Shareholders.

Article 4. The capital of the Bank of Taiwan shall be not less than 5 million (5,000,000) yen.

Article 5. A.—The Bank of Taiwan shall be empowered to transact the following business:

(1) To discount bills of exchange and other commercial paper.
(2) To engage in exchange business.
(3) To collect bills for other companies and merchants, with whom the Bank is in regular business relations.
(4) To make loans on reliable securities.
(5) To receive money on deposit and permit overdrafts.
(6) To take custody of gold and silver coin, precious metals, and deeds of all descriptions.
(7) To buy and sell gold and silver bullion, and exchange moneys.
(8) To act as trustee under secured debentures.
(9) To act as business agent for other banks.
(10) To take charge of raising national and local loans secured by bonds, general debentures and shares, and to receive subscriptions thereto and to disburse principal and interest or dividends thereof.

In addition to the above the Bank of Taiwan may, to meet the requirements of its business, subscribe to, accept and purchase national and local bonds, Hypothec debentures (Kwangyo Saiken), Agricultural and Industrial debentures (Noko Saiken), Industrial debentures (Kogyo Saiken), and other negotiable securities approved by the competent Minister of State.

B.—The Bank may make loans, without security, to Public Corporations, Industrial Guilds and Guilds for Improving the Condition or Breed of Livestock.

Article 6. The Bank of Taiwan shall not engage in any business other than that prescribed under Law number 38 dated the 30th day of March in the 30th year of Meiji (1897).

This rule, however, does not apply to such transactions as are necessary for the Bank's business in foreign countries and for which the approval of the competent Minister of State has been obtained.

Article 7. The Bank of Taiwan, when required by the Government, may act as Fiscal Agent of the Government.

Article 8. The Bank of Taiwan may issue bank notes with a face value of not less than 1 yen.

The bank notes referred to in the preceding paragraph shall on demand be converted into gold coin at any time during business hours at the Head Office or any of the branch offices of the Bank. At branch offices, however, such conversion may be delayed until the arrival of the required equivalent in gold coin from the Head Office.

Article 9. The Bank of Taiwan shall keep as banking reserve, in gold and silver coin or bullion, the equivalent in value to the total amount of the bank notes issued.

In addition to those covered by the reserve mentioned in the preceding paragraph, the Bank may issue bank notes up to an amount not exceeding 20 million yen secured by Government paper money and securities, convertible bank notes, or other reliable securities and commercial bills held by the Bank.

Should the Bank deem it necessary, in view of the condition of the market, to issue bank notes over and above those provided for in the preceding two paragraphs, it may, subject to the approval of the competent Minister of State, issue such notes on the security of Government paper money and securities, convertible bank notes or other reliable securities and commercial bills. In such case, however, the Bank shall pay a tax on the issue at the rate of not less than 3 per cent. per annum to be prescribed by the Government.

Article 10. The bank notes issued by the Bank of Taiwan may be tendered in payment of Government dues at all places within the jurisdiction of the Government of Taiwan.

Article 11. The Bank of Taiwan shall not purchase or hold any property, real or personal, except such as may be necessary for carrying on its business or such as may have been taken by the Bank in satisfaction of debts.

Article 12. There shall be in the organisation of the Bank of Taiwan one President, one Vice-President, two or more Directors and three or more Inspectors.

Article 13. The President and the Vice-President shall be appointed by the Government for a term of five years from among shareholders holding at least 100 shares each and they shall be eligible for reappointment upon the expiration of their respective terms of office.

The Directors shall be appointed by the Government for a term of four years from among nominees, whose number shall be double the number of Directors to be appointed. The nominees shall be elected at a General Meeting of Shareholders from among shareholders holding at least fifty shares each, and each shall, upon the expiration of his terms of office, be eligible for reappointment in the manner prescribed in this Article.

The Inspectors shall be elected at a General Meeting of Shareholders for a term of three years from among shareholders holding at least thirty shares each and shall be eligible for re-election upon the expiration of their terms of office.

Article 14. The President, the Vice-President and the Directors shall not, during their tenure of office, engage in any other business or trade under any denomination whatever; this rule, however, does not apply to cases where the approval of the competent Minister of State has been obtained.

Article 15. The President shall represent the Bank of Taiwan in all its transactions and supervise all its affairs.

The Vice-President shall act for the President in the event of the latter's inability to discharge the functions of his office. While the office of the President is vacant, the Vice-President shall exercise the functions of the President.

The Vice-President and the Directors shall assist the President in the discharge of his functions, and severally take charge of a department of the Bank of Taiwan.

The Inspectors shall inspect the business of the Bank of Taiwan.

Article 16. General Meetings of Shareholders shall be of two kinds, namely, Ordinary and Extraordinary.

An Ordinary Meeting of Shareholders shall be convened by the President twice a year at the periods prescribed in the Articles of Association.

An Extraordinary Meeting of Shareholders may be called at any time by the President for the purpose of discussing matters of special character.

An Inspector of Shareholders representing not less than one-fifth of the capital may, by stating the object of the meeting, require the President to call an Extraordinary Meeting of Shareholders. The President shall, thereupon, call an Extraordinary Meeting of Shareholders.

Article 17. At a General Meeting of Shareholders, absent shareholders shall not be allowed to be represented except by shareholders possessing the right to vote. This rule, however, does not apply to legally qualified proxies.

Article 18. The competent Minister of State shall appoint an Official Supervisor or Supervisors who shall supervise the business operations of the Bank of Taiwan.

Article 19. The Official Supervisor or Supervisors of the Bank of Taiwan shall be empowered to inspect at any time the vaults, safes, ledgers, and all other documents and papers of the Bank of Taiwan.

The Official Supervisor or Supervisors of the Bank of Taiwan shall be further empowered, whenever it shall be deemed necessary for the purposes of supervision, to order the Bank of Taiwan to report on accounts of all kinds and on all other matters connected with its business.

The Official Supervisor or Supervisors of the Bank of Taiwan may attend the General Meetings of Shareholders and all other meetings and express his or their views thereat; but he or they shall not be entitled to vote.

Article 20. The Bank of Taiwan shall annually set apart as a reserve fund at least 8 per cent. of its profits per year for the purpose of making up any loss of capital, and at least 2 per cent. thereof for the stabilisation of dividends.

Article 21. The Bank of Taiwan shall not, without the previous approval of the competent Minister of State, distribute a dividend among its shareholders.

Article 22. The Bank of Taiwan shall, before making any amendment to its Articles of Association, obtain therefor the approval of the competent Minister of State.

Article 23. The competent Minister of State may, whenever he shall deem it necessary, restrict the amount of issue of the bank notes and the amount of loans made by the Bank of Taiwan and the manner in which loans are made.

Article 24. The competent Minister of State shall prevent any operation of the Bank of Taiwan which he may deem contrary to the provisions of the existing Act or the Articles of Association, or injurious to public interests.

Article 25. The Bank of Taiwan shall, upon order of the competent Minister of State, furnish him with a statement of accounts and a report on all matters connected with its business.

The Bank of Taiwan shall publish in newspapers or by other means the weekly returns of the average amount of its issue of bank notes and its banking reserve.

Article 26. For any of the following violations of the provisions of the existing Law by the Bank of Taiwan, the President, or the Vice-President, when exercising the functions of the President or acting as his deputy, shall be liable to a fine of not less than 100 yen but not exceeding 1,000 yen; and if such violation shall have taken place

in connection with a department of the Bank's business under the special direction of the Vice-President or a Director, the Vice-President or the Director in charge of said Department at the time of the violation shall be liable to similar fine:

(1) For engaging, contrary to the provision of Article 6, in a business not permitted in the existing Law governing the Bank.

(2) For any issue of bank notes in violation of the provisions of Article 9.

(3) For failure to maintain the reserve fund as prescribed in Article 20.

SUPPLEMENTARY PROVISIONS

Article 27. The Government shall appoint a committee for the organisation of the Bank of Taiwan, which shall manage all affairs connected with the establishment of the Bank until the charter thereof shall be granted.

Article 28. The Organisation Committee shall draft Articles of Association, and upon obtaining therefor the approval of the Government, they shall invite subscriptions for shares.

Article 29. The Organisation Committee shall, when the subscription has been completed, present the subscription list to the Government and apply for a charter for the establishment of the Bank.

Article 30. The Organisation Committee shall, upon the granting of the charter referred to in the preceding Article, make over its business to the President of the Bank of Taiwan.

Article 31. With regard to the period for which the Directors or the Inspectors shall have held shares as provided for in Article 13, the fourth paragraph of the same Article shall not apply to the aforesaid officers when they are appointed or elected immediately upon the establishment of the Bank.

AS SUPPLEMENTED *by Law No.* 3, *February* 1906

The bank notes issued under the provision of Article 8 (of the Organisation Act of the Bank of Taiwan), prior to the time this Act goes into effect (Law No. 3, February 1906), shall be converted into silver 1-yen pieces at the Head Office or any of the branch offices of the Bank of Taiwan. The Bank, however, may convert such bank notes into gold coin or into the bank notes issued under the provision of this Act, at the official rate of the silver yen for the payment of public dues as determined by the Governor-General of Taiwan.

The amount of the bank notes issued before this Act takes effect, which have not yet been converted, shall be included in the total amount of the issue of bank notes authorised in Article 9.

THE SUBSIDY LAW FOR THE BANK OF TAIWAN

Promulgated by Law No. 35, on the 1st day of March, the 32nd Year of Meiji (1899)

Article 1. The Government shall hold shares in the Bank of Taiwan up to an amount not exceeding one million (1,000,000) yen.

Article 2. The Bank of Taiwan shall, for the period of five years from the first business term immediately following the organisation of the Bank, transfer all dividends on the shares referred to in the preceding Article to the reserve fund for meeting deficits.

Article 3. The Government shall not, during the period specified in the preceding Article, sell the shares held by it.

ARTICLES OF ASSOCIATION OF THE BANK OF TAIWAN LIMITED

CHAPTER I

General Rules

Article 1. This Bank shall be named the Kabushiki-Kwaisha Taiwan Ginko ; and its English title shall be " The Bank of Taiwan Limited."

Article 2. The Bank shall have for its object the conduct of a banking business in conformity with the Organisation Act of the Bank of Taiwan.

Article 3. The Bank shall have its Head Office at Taipeh in the Island of Taiwan.

Article 4. The Bank may establish branch offices at Kobe, Osaka, Yokohama, Tokyo, Keelung, Taichu, Shokwa, Kagi, Tainan, Takao, Giran, Tamsui, Toen, Shinchiku, Nanto, Heito, Taito, Karenko, Makong, Dairen, Shanghai, Foochow, Amoy, Swatow, Hongkong, Canton, Singapore, Sourabaya, Semarang, Batavia, Bombay, and London.

The Bank may, to meet the requirements of its business, establish sub-branches and agencies in other important localities, in Japan and abroad, and enter into correspondence with other banks.

Article 5. The term of existence of the Bank shall be full forty years from the date of its charter ; but the said term may, with the sanction of the Government, be extended by resolution of a General Meeting of Shareholders.

Article 6. All public notices of the Bank shall be published in the *Official Gazette* and newspapers which publish the notices of the court at the seat of the Bank.

CHAPTER II

Capital and Shares

Article 7. The capital of the Bank is 15 million yen divided into 150,000 shares of 100 yen each.

Article 8. One certificate shall be made out for each share ; but 10 or 100-share lots may, at the request of the shareholder, be combined in a single certificate.

Article 9. Upon the payment of the first instalment of the subscription for a share, a certificate shall be delivered to the shareholder, and the amount of every subsequent instalment shall be inscribed thereon at the time of its payment.

Article 10. The first instalment of subscription to the capital shall be one-fourth of the total amount of the capital, that is to say 1,250,000 yen (or 25 yen per share).

The President shall, upon the grant of the charter of the Bank, fix the time for the payment of the amount referred to in the preceding paragraph, and give notice of call to every subscriber in accordance with the provisions of the Commercial Code ; and upon the receipt of such notice, the shareholder shall, without delay, make the payment required.

The time and manner of payment of the second and subsequent instalments shall be determined according to the requirements of the business of the Bank, and the President shall give notice thereof to every shareholder ; the amount to be paid in at each instalment shall not, however, exceed 25 yen per share.

In case of an increase in the capital, the provisions of the preceding three paragraphs shall be correspondingly applicable to the payment of subscriptions for the shares in such increase.

Article 11. A shareholder who neglects to pay the amount of a subscription for a share shall be dealt with in accordance with the provisions of the Commercial Code.

In cases such as those referred to in the preceding paragraph, such delinquent shareholder shall be required to pay as penalty a sum calculated at the rate of 4 sen per diem for every 100 yen of his arrearage from the day immediately following the date fixed for the payment up to the day of actual payment.

Article 12. In case of assignment of shares of the Bank, a deed of assignment drawn up with the seals of both the parties concerned

affixed thereto shall be presented to the Bank together with the certificates of such shares.

The Bank shall require both parties to endorse the share certificates with their signatures and seals, and the said certificates shall be returned after they have been duly entered in the list of shareholders.

Article 13. In case a person, who has acquired shares of the Bank by inheritance or by bequest, shall apply for an alteration of the title thereto and at the same time forward a duly certified declaration of such acquisition, the Bank shall make the required alteration in accordance with the provisions of the preceding Article.

Article 14. The assignment of a share of the Bank cannot be established unless the name and domicile of the assignee have been entered in the list of shareholders and his name has also been inscribed in the share certificate.

Article 15. In the case of a share certificate of the Bank being destroyed by accident, the owner thereof may apply for the delivery of a new certificate. He must, however, forward to the Bank a report containing a detailed statement of the circumstances of the destruction, and giving the value and number of the certificate, duly attested by two or more sureties satisfactory to the Bank.

Upon receipt of the application referred to in the preceding paragraph, the Bank shall, if the proofs are satisfactory, deliver a new certificate; but should they not be satisfactory, the general provisions respecting the loss of certificates shall apply.

Article 16. In the case of a share certificate of the Bank being lost or stolen, the owner thereof may, by reporting the fact to the Bank together with the value and number of the certificate, apply for the delivery of a new certificate.

Upon receipt of the application referred to in the preceding paragraph, the Bank shall advertise the loss at the applicant's expense, and, after the lapse of one month from the date of such advertisement, require the applicant to produce two or more sureties satisfactory to the Bank and shall then deliver to him a new share certificate.

In the event of the applicant finding the share certificate in question within the period specified in the preceding paragraph, he shall at once report the fact to the Bank; and the Bank shall advertise the fact that the certificate has been found in the manner prescribed in the preceding paragraph.

Article 17. In the event of a protest being entered in respect of a share certificate reported as destroyed, lost, or stolen, the Bank shall not deliver a new certificate except in accordance with the decision of a Court having jurisdiction in the case.

Article 18. In the case of a share certificate being defaced or mutilated, the owner thereof may, by presenting to the Bank a detailed statement of the circumstances of such mutilation or defacement together with the share certificate in question, apply for the delivery of a new certificate.

Upon receipt of the application referred to in the preceding paragraph, the Bank shall, if satisfied, upon examination of the genuineness of the certificate in question, deliver a new certificate; but in case the genuineness of such certificate cannot be established, the provisions respecting the loss of certificates shall apply.

Article 19. The Bank shall charge a fee of 5 sen per certificate for the transfer of title of a share certificate, and of 20 sen per certificate for the delivery of a new share certificate.

Article 20. The Bank shall suspend the transfer of its shares for a period of not more than a month preceding the date of any Ordinary Meeting of Shareholders. In such case, however, public notice of the suspension shall previously be given.

The provision of the preceding paragraph is correspondingly applicable in the case of an Extraordinary Meeting of Shareholders.

CHAPTER III

Principal Officers and Council of Principal Officers

Article 21. The Administration of the Bank shall consist of one President, one Vice-President, two or more Directors, and three or more Inspectors. The number of Directors and Inspectors shall be determined at a General Meeting of Shareholders.

Article 22. The President and Vice-President shall be appointed by the Government for a term of five years from among shareholders holding at least 100 shares each.

The Directors shall be appointed by the Government for a term of four years from among the nominees, whose numbers shall be double the number of the Directors to be appointed, and who shall be elected at a General Meeting of Shareholders from among shareholders holding at least fifty shares each.

The Inspectors shall be elected at a General Meeting of Shareholders for a term of three years from among shareholders holding at least thirty shares each.

In the event of a vacancy occurring in the office of Director or Inspector, an Extraordinary Meeting of Shareholders shall be called with a view to an election to fill such vacancy. The officer so elected shall serve during the remaining portion of his predecessor's term of office.

Article 23. The President and the Vice-President must each deposit with the Inspectors 100 shares of the Bank, and the Directors fifty shares each, during their respective terms of office.

The shares so deposited shall not, even upon the retirement of the officer owning them, be returned to him until the report of accounts for the term of office from which he has retired shall have been approved at a General Meeting of Shareholders.

Article 24. The President shall represent the Bank in all its transactions and superintend all its affairs.

The Vice-President shall act for the President in the event of the latter's inability to discharge the functions of his office, and while the office of President is vacant, the Vice-President shall exercise all the functions of President.

The Vice-President and the Directors shall assist the President in the discharge of his functions, and severally take charge of a department of the Bank.

The Inspectors shall inspect the business of the Bank. The Inspectors may determine a Standing Inspector by their mutual election.

Article 25. The salaries or remunerations of the President, Vice-President, Directors and Inspectors shall be determined at a General Meeting of Shareholders.

Article 26. The Council of Principal Officers shall be composed of the President, Vice-President, and Directors. The Council shall discuss and decide upon matters of importance in the affairs of the Bank.

Article 27. The Council of Principal Officers shall be opened by the President.

The Council of Principal Officers shall not be opened unless more than one-half of the members are present.

If the number of members present falls below the number prescribed in the preceding paragraph because members are prevented from attending the meeting through illness, travel or other unavoidable circumstances, urgent matters shall be deliberated and passed upon by those present and their decision shall be reported at the following meeting.

All resolutions of the Council must be carried by a majority of votes, and in case of a tie, the chairman shall have the casting vote.

Article 28. All matters decided upon at the Council of Principal Officers shall be entered in its Minutes, and the members present shall affix their signatures and seals thereto.

CHAPTER IV

General Meetings of Shareholders

Article 29. General Meetings of Shareholders shall be of two kinds, namely Ordinary and Extraordinary, and shall be called by the President.

Article 30. Ordinary Meetings of Shareholders shall be held twice a year, namely in the months of March and September. Notices of the time and place as well as the object of the meeting and the matters to be discussed thereat, shall be mailed to every shareholder by the President at least two weeks prior to the date of such meeting.

The Ordinary Meeting of Shareholders shall examine the documents submitted by the President and the reports of the Inspectors and decide upon the distribution of profits.

Article 31. An Extraordinary Meeting of Shareholders shall be held only in the cases specified below ; the time and place of such meeting shall be fixed by the President, and notices setting forth object of the meeting and the subject for discussion shall be mailed to every shareholder at least two weeks prior to the date of such meeting :

(1) When the President deems such meeting necessary.
(2) When request for such meeting, specifying the object thereof, is made by an Inspector.
(3) When a request for such meeting, stating the object thereof and reasons for convening it, is made in writing by shareholders representing not less than one-fifth of the capital.

The President shall, upon the receipt of requests mentioned in the second and third items of the preceding paragraph, take steps within two weeks therefrom for calling an Extraordinary Meeting of Shareholders.

Article 32. The right of vote of a shareholder shall consist of one vote for each share held by him.

Article 33. A shareholder may be represented by proxy at a General Meeting of Shareholders and the proxy may exercise the shareholder's right of voting ; such proxy must, however, be either a legal representative or a shareholder of the Bank.

Neither officers nor employees of the Bank shall under any circumstances act as proxies.

Article 34. A person who shall attend a General Meeting of Shareholders as proxy for a shareholder to exercise the right of voting thereat, must bring with him and produce a power of attorney as proxy.

Article 35. All resolutions of a General Meeting of Shareholders must be passed by an absolute majority of the votes of the shareholders present. A resolution, however, relative to amendments in the Articles of Association or to the dissolution of the Bank, must be passed by an absolute majority of votes at a meeting attended by shareholders who shall constitute not less than one-half of the entire number of shareholders and represent in the aggregate not less than one-half of the capital.

Article 36. In the event of a resolution to amend the Articles of Association or to dissolve the Bank being offered at a General Meeting of Shareholders, if the shareholders present do not constitute a quorum, those present may pass a provisional resolution by a majority of votes, and that fact shall be communicated to all the shareholders of the Bank, and another General Meeting of Shareholders shall be called not later than one month after the first meeting, and such second meeting shall decide by a majority of votes of those present whether the provisional resolution shall be confirmed or not.

Article 37. All matters decided upon at a General Meeting of Shareholders shall be entered in its Minutes, and the President, Vice-President, Directors and Inspectors shall severally affix their signatures and seals thereto.

Article 38. All the shareholders present at a General Meeting of Shareholders shall, on the day of the meeting before it is opened, affix their signatures and seals to the Attendance Book, and those who represent shareholders as proxies shall make a statement to that effect and also affix their signatures and seals.

The Attendance Book shall be appended to the Minutes after the President, Vice-President, Directors and Inspectors have affixed their signatures and seals to the Attendance Book.

CHAPTER V

Business

Article 39. A.—The Bank shall be competent to transact the following business :

(1) To discount bills of exchange and other commercial paper.

(2) To engage in exchange business.

(3) To collect bills for other companies and merchants with whom the Bank is in regular business relations.

(4) To make loans on reliable security.

(5) To receive money on deposit and permit overdrafts.

(6) To take custody of gold and silver coin, precious metals and deeds of all descriptions.

(7) To buy and sell gold and silver bullion, and exchange moneys.

(8) To act as trustees under secured debentures.

(9) To act as business agent for other banks.

(10) To take charge of raising public loans secured by bonds, general debentures and shares, and to receive subscriptions thereto and to disburse principal and interest or dividends thereof.

In addition to the above, the Bank may, to meet the requirements of its business, subscribe to, accept and purchase national and local loan bonds, Hypothec debentures, Agricultural and Industrial debentures, Industrial debentures and other negotiable securities approved by the competent Minister of State.

B.—The Bank may make loans without securities to Public Corporations, Industrial Guilds and Guilds for improving the condition or breed of livestock.

C.—The Bank may, in addition to those prescribed in the two preceding paragraphs, conduct such transactions as are necessary for its business in foreign countries and for which the approval of the competent Minister of State has been obtained.

Article 40. The Bank shall, when so ordered by the Government, undertake the handling of the National Treasury funds.

Article 41. The Bank shall not purchase or hold any property, real or personal, except such as may be necessary for carrying on its business or has been taken by the Bank in satisfaction of debts.

All property taken by the Bank in satisfaction of debts shall be sold, if personal, within six months, and, if real, within one year; if, however, no offer is made or the price offered is deemed inadequate, such sale may be postponed.

Article 42. The Bank shall not acquire its own shares or take them in pledge.

Article 43. Under no circumstances whatever shall the Bank make any loan to any of its officers or employees.

CHAPTER VI

Bank Notes

Article 44. The Bank has the privilege of issuing bank notes.

Article 45. The Bank shall keep as banking reserve a sum, in gold and silver coin and bullion, equivalent to the total amount of issue of bank notes.

Article 46. In addition to those covered by the reserve mentioned in the preceding Article, the Bank may issue bank notes up to an amount not exceeding 20 million yen secured by Government paper money and securities, convertible bank notes, or other reliable securities and commercial bills held by the Bank.

Article 47. Should the Bank deem it necessary in view of the condition of the market to issue bank notes over and above those provided for in the preceding two Articles, it may, with the approval of the Minister of State for Finance, issue such notes on the securities specified in the preceding Article.

Article 48. The Bank shall prepare weekly returns of the average amounts of its issue of bank notes and its banking reserve, which shall be presented to the Minister of State for Finance and at the same time be published in the *Official Gazette* and newspapers.

CHAPTER VII

ACCOUNTS

Article 49. The business term of the Bank shall extend from the first day of January to the last day of June and from the first day of July to the last day of December every year. At the end of every business term, the President shall settle all accounts, make an inventory, and draw up a balance sheet and a business report as the basis for distribution of the profits.

Article 50. The profits shall be disposed of in the following manner:

(1) Contingent reserve fund for meeting deficits; at least 8 per cent. of the profits.

(2) Reserve fund for the stabilisation of dividends; at least 2 per cent. of the profits.

(3) Special reserve fund; at least 1 per cent. of the profits.

(4) Bonus; 7 per cent. of the profits (after deducting the sum brought over from the preceding term).

(5) After deducting the above four items, the remainder shall be distributed among the shareholders; but a part thereof may, if deemed expedient in view of the rate of dividends, be carried forward to the account for the next ensuing term.

Article 51. All dividends on the shares held by the Government shall, for the period of five years from the first business term immediately following the organisation of the Bank, be transferred to the contingent reserve fund for meeting deficits.

Article 52. The contingent reserve fund for meeting deficits shall be employed to meet any deficiency in the capital caused by losses.

The reserve fund for the stabilisation of dividends shall be employed to meet any deficiency in dividends when they fall below 5 per cent. on the paid-up capital.

The special reserve fund shall be employed to meet any losses incurred through fluctuations in the price of silver and through other causes.

Supplementary Provision

Article 53. All actual expenses incurred in the course of the organisation of the Bank shall be borne by the Bank; but the amount thereof must be approved and passed by a General Meeting of Shareholders.

Official Order No. 653.

I hereby approve the Articles of Association of the Bank of Taiwan Limited, presented to me with an application dated the 29th day of this month.

The 30th day of March,
the 32nd year of Meiji (1899).

COUNT MATSUKATA MASAYOSHI,
Minister of State for Finance.

To SOYEDA JUICHI, LL.D.
Chairman of the Organisation Committee
of the Bank of Taiwan.

THE BANK OF TAIWAN LTD.

BALANCE SHEET, JUNE 30, 1936

Liabilities

	Yen	Yen
Capital Subscribed		15,000,000·00
Reserve Funds		4,504,000·00
Notes in Circulation		63,673,700·00
Deposits, etc.		257,690,062·27
Bills Payable		57,938,643·04
Bills Rediscounted		3,600,615·92
Acceptances and Guarantees, etc.		3,076,606·33
Due to Correspondents		1,713,803·80
Dividends Unclaimed		5,784·49
Profit and Loss Account:		
Brought forward from previous Term	168,453·58	
Profit for Current Term	867,722·91	
		1,036,176·49
Total		408,239,392·34

Assets

	Yen
Cash Account:	
In Hand	7,186,849·41
At Banks	5,676,290·76
Bullion	15,557,039·79
Bills Discounted, Loans, etc.	203,674,503·19
Interest Bills, Bills Bought and Export Advances	61,833,235·67
Acceptances and Guarantees as per Contra, etc.	3,076,606·33
Government Bonds, etc.	103,812,625·64
Due from Correspondents	659,541·25
Bank Premises and Real Estate, etc.	4,887,700·30
Capital Uncalled	1,875,000·00
Total	408,239,392·34

PROFIT AND LOSS ACCOUNT

	Yen
Current Expenses, Interest, etc.	13,978,837·98
Reserve Funds	596,000·00
Bonus	50,000·00
Dividend	197,250·00
Balance carried forward to next Account	192,926·49
Total	15,015,014·47

	Yen
Balance Brought Forward from last Account	168,453·58
Amount of Gross Profits for the Half-year ending June 30, 1936	14,846,560·89
Total	15,015,014·47

THE BANK OF TAIWAN LTD.

BALANCE SHEET, DECEMBER 31, 1936

Liabilities

	Yen	Yen
Capital Subscribed		15,000,000·00
Reserve Funds		5,100,000·00
Noes in Circulation		79,137,775·50
Deposits, etc.		266,870,855·87
Bills Payable		85,373,513·51
Bills Rediscounted		8,499,535·30
Acceptances and Guarantees, etc.		5,533,927·65
Due to Correspondents ...		2,352,142·29
Dividends Unclaimed ...		4,702·36
Profit and Loss Account:		
Brought forward from previous Term	192,926·49	
Profit for Current Term ...	944,522·93	
		1,137,449·42
Total		469,009,901·90

Assets

	Yen
Cash Account—	
In Hand	6,661,172·16
At Banks	4,372,900·23
Bullion	14,893,518·67
Bills Discounted, Loans, etc.	217,428,383·90
Interest Bills, Bills Bought and Export Advances	88,967,976·91
Acceptances and Guarantees as *per contra*, etc.	5,533,927·65
Government Bonds, etc.	122,434,197·21
Due from Correspondents	1,518,038·67
Bank Presmises and Real Estate, etc. ...	5,324,786·50
Capital Uncalled	1,875,000·00
Total	469,009,901·90

PROFIT AND LOSS ACCOUNT

	Yen
Current Expenses, Interest, etc.	13,984,860·64
Reserve Funds	600,000·00
Bonus	50,000·00
Dividend	197,250·00
Balance carried forward to next Account ...	290,199·42
Total	15,122,310·06

	Yen
Balance brought forward from last Account ...	192,926·49
Amount of Gross Profits for the Half-year ending December 31, 1936	14,929,383·57
Total	15,122,310·06

THE BANK OF CHOSEN ACT

Law No. 48, *March* 1911. *Revised by Law No.* 28, *March* 1918

CHAPTER I

GENERAL PROVISIONS

Article 1. The Bank of Chosen shall be a joint-stock company with its head office at Seoul, Chosen.

Article 2. The Bank may establish branches or agencies, or enter into correspondence with other banks, with the sanction of the Governor-General of Chosen.

The Governor-General of Chosen may order the Bank to establish branches or agencies when deeming it necessary.

Article 3. The duration of the Bank shall be fifty years from the day on which its establishment is registered. Such duration may, however, be prolonged with the sanction of the Government.

Article 4. The capital of the Bank shall be 10 million yen divided into 100,000 shares of 100 yen each. Such capital may, however, be increased with the sanction of the Government.

Article 5. The share certificates of the Bank shall each bear thereon the name of the holder.

None but Japanese subjects shall be entitled to become shareholders of the Bank.

Article 6. The Government shall subscribe for 30,000 of the shares of the Bank.

The shares subscribed for by the Government in accordance with the provisions of the preceding paragraph shall be inalienable.

CHAPTER II

Directors

Article 7. The Bank of Chosen shall have one Governor, one Deputy Governor, three Directors or more, and two Auditors or more. (Revised by Law No. 28, 1918.)

Article 8. The Governor shall represent the Bank and control all affairs of the Bank.

The Deputy Governor shall act for the Governor when the Governor is prevented from attending to his duties, and discharge those duties when the office of Governor is vacant. (Revised by Law No. 28, 1918.)

The Deputy Governor and the Directors shall assist the Governor, and undertake the departmental management of the business of the Bank in accordance with the provisions of the By-laws. (Revised by Law No. 28, 1918.)

The Auditors shall inspect the business of the Bank.

Article 9. The Governor and the Deputy Governor shall be appointed by the Government, and their term of office shall be for five years. (Revised by Law No. 28, 1918.)

The Directors shall be appointed by the Governor-General of Chosen from among twice as many candidates who have been elected to that office at a general meeting of shareholders from among shareholders holding 100 shares or more, and their term of office shall be for three years.

The Auditors shall be elected at a general meeting of shareholders from among shareholders holding fifty shares or more, and their term of office shall be for two years.

Article 10. The Governor, Deputy Governor, or Directors shall not be allowed to attend to any other duties or engage in any other mercantile business under any pretence whatever, save that for which the sanction of the Governor-General of Chosen has been given. (Revised by Law No. 28, 1918.)

CHAPTER III

General Meeting of Shareholders

Article 11. The Ordinary General Meeting of Shareholders shall be called by the Governor at such times as are prescribed in the By-laws.

Article 12. An Extraordinary General Meeting of Shareholders shall be called by the Governor at any time when necessary.

Article 13. All the auditors, as a body, or shareholders representing in the aggregate at least one-fifth of the capital, may apply to the Governor to call an Extraordinary Meeting of Shareholders, specifying the object for which the meeting is to be called.

When the Governor has received such application as mentioned in the preceding paragraph, he shall call an Extraordinary General Meeting of Shareholders.

Article 14. The voting power of a shareholder shall be one vote for each share held by him up to ten shares, and one vote for every ten shares over and above the first ten shares.

Article 15. A shareholder shall not be allowed to exercise his right of voting through a proxy who is not a shareholder unless such person is his legal proxy.

Article 16. Any alteration in the By-laws shall be resolved upon only by a majority of the votes of shareholders present and representing in the aggregate at least half the amount of the capital.

CHAPTER IV

Business

Article 17. The Bank of Chosen shall engage in the following business :

(1) Discounting of bills of exchange and other commercial bills.
(2) Collection of bills for companies, banks, or individual merchants, who are regular customers of the Bank.
(3) Dealing in bills of exchange with or without documents.
(4) Making of loans on security of a reliable nature.
(5) Receiving of deposits and making of advances in current accounts.
(6) Safe custody of gold and silver coins, other precious metals, and documents.
(7) Buying and selling of gold and silver bullion, and exchange of coins and moneys.
(8) Trust business. (Added by Law No. 28, 1918.)

The Bank may, besides the business mentioned in the preceding paragraph, purchase, according to the requirements of business, national loan bonds, local loan bonds, and other negotiable bonds of a reliable nature as defined by the Governor-General of Chosen.

Article 18. The Bank may, in addition to the business mentioned in the preceding Article, engage in the following business subject to the sanction of the Governor-General of Chosen ;

(1) Making of loans to public bodies without security.
(2) Acting as agent for other banks.

Article 19. The Bank shall not be allowed to possess any movables or immovables except those necessary to business or those which have come into the possession of the Bank in satisfaction of its claims.

Article 20. The Bank shall not be allowed to engage in any business not mentioned in this Act except under orders of the Governor-General of Chosen.

CHAPTER V

Bank Notes

Article 21. The Bank of Chosen may issue bank notes, provided that the sanction of the Governor-General of Chosen shall be obtained in regard to the form, style and denomination of such notes.

The bank notes mentioned in the preceding paragraph shall be exchanged for gold coin or Bank of Japan notes any time during business hours at the head office and branches of the Bank. The exchange at the branches may, however, be postponed until reserves can have arrived from the head office.

Article 22. The Bank shall provide the same amount of reserve in gold coin, gold and silver bullion, or Bank of Japan notes, as that of the notes issued : provided that the silver bullion shall not exceed one quarter of the whole amount of the reserve.

The Bank may, in addition to the issue on the reserve mentioned in the preceding paragraph, issue bank notes on the security of national loan bonds, or of other bonds or commercial bills of a reliable nature, to the extent not exceeding 50 million yen. (Revised by Law No. 28, 1918.)

In addition to the issue provided in the preceding two paragraphs further issue may be made on the security of national loan bonds, or of other bonds or commercial bills of a reliable nature, subject to the sanction of the Governor-General of Chosen, when such issue is necessitated by the condition of the market. In this case the Bank shall pay to the Government an issue-tax of at least 5 per cent. per annum on the amount of such issue in pursuance of the order of the Government.

Article 23. The bank notes issued by the Bank shall circulate without restriction within the jurisdiction of the Governor-General of Chosen.

Article 24. The Bank shall publish in the Official Gazettes a weekly average return on the amount of the notes issued and of the reserves held against such notes.

Article 25. Such procedures as relate to the manufacture and issue of the bank notes and exchange and cancellation of damaged notes shall be fixed by the Governor-General of Chosen.

CHAPTER VI

Reserve Fund and Payment to the Government

Article 26. The Bank shall set apart 8 per cent. or more of the profit for each business term for providing against any loss that may be incurred on its capital and 2 per cent. or more for equalising dividends.

Article 27. When the amount of the profit to be distributed to shareholders exceeds 12 per cent. per annum on the paid-up capital, half the amount of such excess shall be paid to the Government.

CHAPTER VII

Government Supervision and Subsidy

Article 28. The Government shall supervise the business of the Bank.

Article 29. The Bank shall obtain the sanction of the Governor-General of Chosen before any alteration can be made in its By-laws.

Article 30. The Bank shall obtain the sanction of the Governor-General of Chosen for distribution of its profits to the shareholders.

Article 31. The Governor-General of Chosen may, when deeming it necessary, place restrictions in regard to the denomination and the amount of issue of bank notes, the amount and method of loans or of bill discounting, and the rate of interest or discount therefor, and also in regard to exchange fees and to specie and security reserves.

Article 32. The Governor-General of Chosen may interdict any business operations of the Bank violating the provisions of Laws and Ordinances or By-laws, or those deemed prejudicial to the public welfare.

Article 33. The Bank shall make a report to the Governor-General of Chosen upon the condition of the Bank's business and upon its accounts in accordance with the rules fixed by the Governor-General.

Article 34. The Governor-General of Chosen shall appoint a special Government Commissioner to the Bank, who shall supervise the business of the Bank.

Article 35. The Government Commissioner may examine at any time the safes, books and documents of any description of the Bank.

The Government Commissioner may also, when deeming it necessary for supervising purposes, order the Bank to produce at any time a report upon the accounts of the Bank's business and upon its condition.

The Government Commissioner may attend general meetings of shareholders and other meetings and give his opinion, but is not allowed to participate in the voting.

Article 36. Until the dividend by the Bank has reached the rate of 6 per cent. per annum for each business term on the shares other

than those taken by the Government, no dividend need be paid on those taken by the Government.

Article 37. If the dividend by the Bank does not reach the rate of 6 per cent. per annum for each business term on the shares other than those taken by the Government, the Government shall subsidise the Bank by the amount necessary to enable the dividend to reach that rate for a period of five years from the last day of the inaugurating term.

CHAPTER VIII

PENAL REGULATIONS

Article 38. If any or either of the following offences be committed by the Bank, the Governor, or the Deputy Governor who discharges the duties of the Governor or acts for him, shall be fined not less than 100 yen and not more than 1,000 yen. If such offence be committed in respect to the section of business managed by the Deputy Governor or a Director, the same penalty shall be inflicted upon the Deputy Governor or the Director in charge. (Revised by Law No. 28, 1918.)

(1) Violation of the provisions set forth in Article 19, Article 20, Article 22, paragraph 1, and Article 26.

(2) Neglect to obtain the sanction of the Government when such sanction is required by the provisions of this Act.

Article 39. If the Governor, or the Deputy Governor who discharges the duties of the Governor or acts for him, do not call a General Meeting of Shareholders in accordance with the provision of Article 11 or Article 13, paragraph 2, he shall be fined not less than 100 yen and not more than 1,000 yen. (Revised by Law No. 28, 1918.)

Article 40. If the Governor, Deputy Governor, or Directors act in violation of the provisions of Article 10, he or they shall be fined not less than 20 yen and not more than 200 yen. (Revised by Law No. 28, 1918.)

Article 41. In regard to the fines mentioned in the preceding three Articles, provisions of Articles 206, 207 and 208 of the Law pertaining to the Procedures for *Voluntary Jurisdiction* shall apply.

SUPPLEMENTARY PROVISIONS

Article 42. The date of enforcement of this Act shall be fixed by an Imperial Ordinance.

Article 43. The Bank of Korea, established by the Bank of Korea Act, Law No. 22 of the 3rd year of Yungheui (1909), shall be renamed the Bank of Chosen, and shall be regarded as established on the day the Bank of Korea was established, and any act performed

by the Bank of Korea shall be regarded as performed by the Bank of Chosen.

Any registration made in respect of the Bank of Korea shall be regarded as done in respect of the Bank of Chosen, and the name of the Bank in the Register shall be regarded as naturally changed.

Article 44. The Governor, Directors, and Auditors of the Bank of Korea shall be regarded as installed as such for the Bank of Chosen.

Article 45. The Bank of Korea note issued by the Bank of Korea and the Dai Ichi Ginko note, regarded as issued by the Bank of Korea, shall both be regarded as issued by the Bank of Chosen.

BY-LAWS OF THE BANK OF CHOSEN

As revised February 20, 1917, *April* 17, 1918, *August* 20, 1918, *and February* 17, 1920

CHAPTER I

General Provisions

Article 1. The Bank shall be established by the Bank of Chosen Act, Law No. 48, 1911, and be called Chosen Ginko which, in English, shall be the Bank of Chosen.

Article 2. The object of the Bank shall be to carry on banking business in accordance with the Bank of Chosen Act.

Article 3. The Bank shall have its head office in Seoul.

Article 4. The Bank is authorised to establish branches or agencies in such places as are deemed necessary, with the sanction of, or by order of, the Governor-General of Chosen.

Article 5. The Bank is further authorised to enter into correspondence with other banks subject to the sanction of the Governor-General of Chosen.

Article 6. The duration of the Bank shall be fifty years from the day on which its establishment is registered. Such duration may, however, be prolonged by a resolution passed at a general meeting of shareholders and with the sanction of the Government.

Article 7. Public notifications of the Bank shall be made in the Official Gazettes and in certain newspapers, the choice of which shall be made by the Governor of the Bank and publicly notified in the Official Gazettes.

CHAPTER II

Capital and Shares

Article 8. The capital of the Bank shall be 80 million yen which shall be divided into 800,000 shares of 100 yen each. Such capital, may, however, be increased by a resolution passed at a general meeting of shareholders and with the sanction of the Government. (Revised February 1917, August 1918, and February 1920.)

Article 9. The share certificates of the Bank shall each bear thereon the name of the holder.

None but Japanese subjects shall be entitled to become shareholders of the Bank.

Article 10. Thirty thousand of the shares of the Bank shall be subscribed for by the Government.

Article 11. The share certificates of the Bank shall be of six classes, representing respectively 1 share, 5 shares, 10 shares, 50 shares, 100 shares and 1,000 shares.

Article 12. When a shareholder has made payment of the first call on his share, he shall be given a receipt which shall afterwards be exchanged for a share certificate.

Upon each payment, the share certificate shall have the amount of the payment inscribed thereon and the seal of the Governor attached thereto.

Article 13. The amount of the first call on the shares in the capital of the Bank shall be one quarter of the whole capital.

Article 14. The date, manner and amount of the second and later calls shall be fixed by the Governor according to the requirements of business, and notice thereof shall be given publicly and to each shareholder at least two weeks beforehand, with the proviso that the amount of each call shall not exceed 25 yen per share.

Article 15. If a shareholder neglects to pay any call on his share, compensation at the rate of 4 sen a day for every 100 yen shall be collected on the whole amount in arrear computed from the day following that appointed for payment thereof to the day of the actual payment.

Article 16. A shareholder and his legal proxy shall each file a specimen of his seal at, and notify his address to, the Bank, and shall do the same whenever a change is made in either or both of such seal and address, and when the Bank requests him to furnish proof

as to his seal or the limits of power of his proxy, he shall take proper steps in compliance therewith.

Article 17. In case a shareholder assigns his shares to another person, he shall have the share certificates signed and sealed by both persons concerned on the back thereof, and file them at the Bank with a written application under their joint signatures for the alteration of the holder's name.

On receiving such application, the Bank shall proceed to make due entry in the Register of Shareholders and have the certificates signed and sealed by the Governor on the back thereof, after which they shall be returned.

When the shares have been acquired by inheritance or legacy, the acquirer only is required to sign and seal on the back of the certificates and annex thereto a formal document in proof of his claim.

Article 18. When a share certificate of the Bank has been destroyed, the shareholder may apply for the issue of a new certificate by filing at the Bank a document stating the particulars of the fact, together with the class, amount, and serial number of the certificate in question, and attested by two or more witnesses approved by the Bank.

On receiving such application, if the Bank finds the evidence satisfactory, it shall deliver a new certificate. If not, provisions relating to share certificates lost or stolen shall apply.

Article 19. When a share certificate of the Bank has been lost or stolen, the shareholder may apply for the issue of a new certificate by filing at the Bank a document in which the class, amount, and serial number of the certificate in question are stated in detail.

On receiving such application, the Bank shall advertise the fact at the expense of the applicant, and, after a month has elapsed, shall deliver a new certificate, causing the applicant to produce two or more witnesses approved by the Bank.

If, during the period mentioned in the preceding paragraph, the applicant has discovered the lost certificate, he shall at once notify the fact to the Bank, and the Bank shall advertise it as prescribed in the preceding paragraph.

Article 20. If a protest has been lodged in regard to a certificate reported to the Bank as destroyed, lost, or stolen, the Bank may not deliver a new certificate except in accordance with the final judgment given at the Court.

Article 21. When a share certificate has been soiled or damaged, the shareholder may apply for the issue of a new certificate by filing at the Bank a document stating the particulars of the fact together with the certificate in question.

On receiving such application, if the Bank on examination recognises the genuineness of the certificate, it shall deliver a new one. In case its genuineness cannot be proved, provisions relating to share certificates lost or stolen shall apply.

Article 22. When applied for by shareholders, the Bank shall

change share certificates from one class into another. In such case, the applicant is required to pay a fee of 20 sen for each new certificate.

Article 23. The Bank shall collect from the applicant a fee of 5 sen a copy for alteration of the holder's name, and of 20 sen for the delivery of a new certificate on account of the old one being destroyed, lost, stolen, soiled or damaged.

Article 24. The Bank shall suspend the alteration of the holder's name on a share certificate for a period of not more than one month prior to an Ordinary General Meeting of Shareholders, and public notice thereof shall be given beforehand.

The provisions of the preceding paragraph may also apply correspondingly to an Extraordinary General Meeting of Shareholders. (Added February 1917.)

CHAPTER III

Directors

Article 25. The Bank shall have one Governor, one Deputy Governor, three Directors or more, and two Auditors or more. (Revised April 1918.)

Article 26. The Governor and the Deputy Governor shall be appointed by the Government, and their term of office shall be for five years. (Revised April 1918.)

The Directors shall be appointed by the Governor-General of Chosen from among twice as many candidates who have been elected to that office at a General Meeting of Shareholders from among shareholders holding 100 shares or more, and their term of office shall be for three years.

The Auditors shall be elected at a General Meeting of Shareholders from among shareholders holding fifty shares or more, and their term of office shall be for two years.

If any vacancy occurs in the office of Director or Auditor, a General Meeting of Shareholders shall be called and a by-election held to fill the vacancy. Such by-election may, however, be postponed to the next General Meeting of Shareholders, when sanctioned by the Governor-General of Chosen.

Article 27. The Directors shall each be required to deposit with the Auditors 100 of their shares during their term of office.

The shares mentioned in the preceding paragraph shall not be returned to the Directors, even though they have resigned their posts, until the report of accounts for the current term has been approved by the general meeting of shareholders.

Article 28. The powers and duties of the Governor shall be as follows:

(1) The Governor shall represent the Bank in all its affairs.

(2) He shall execute all the business of the Bank in conformity with the provisions of Laws, Ordinances and By-laws, and with resolutions passed at General Meetings of Shareholders and by the Board of Directors.

(3) He shall be chairman of the General Meetings of Shareholders and of the Board of Directors.

Article 29. The Deputy Governor shall act for the Governor when the Governor is prevented from attending to his duties, and shall discharge those duties when the office of Governor is vacant. (Revised April 1918.)

Article 30. The Deputy Governor and the Directors shall assist the Governor and undertake the departmental management of the business of the Bank under his direction. (Revised April 1918.)

Article 31. The Auditors shall inspect the business of the Bank.

Article 32. The annual salaries of the Governor, Deputy Governor and Directors shall be as follows: (1) Governor, 6,000 yen; (2) Deputy Governor, 4,500 yen; (3) Directors—1st class 4,000 yen, 2nd class 3,000 yen. (Revised April 1918.)

The salaries of the Auditors shall be fixed by a resolution passed at a General Meeting of Shareholders.

An allowance may be granted to the Governor, Deputy Governor and Directors, and the amount thereof shall be fixed by the Governor-General of Chosen. (Revised April 1918.)

CHAPTER IV

Board of Directors

Article 33. The Board of Directors shall consist of the Governor, Deputy Governor and Directors. (Revised April 1918.)

Article 34. The Board of Directors shall decide important business of the Bank.

Article 35. A meeting of the Board of Directors shall be called by the Governor in case of necessity.

No meeting of the Board of Directors shall be opened unless at least half of the members are present, but a matter requiring urgent execution may be decided upon by those present, even if a quorum is not reached on account of the majority of the members being absent owing to illness, travel or other causes: provided that the matters decided upon at such meetings shall be reported at the next meeting of the Board.

A decision of the Board shall be made by a majority of votes, and, in case of a tie, the chairman shall decide.

Article 36. The matters decided upon at a meeting of the Board of Directors shall be recorded in the Minutes of Resolutions, which shall be signed and sealed by the members present.

CHAPTER V

General Meeting of Shareholders

Article 37. The general meetings of shareholders shall be of two kinds, viz. Ordinary and Extraordinary.

Article 38. The Ordinary General Meeting of Shareholders shall be held twice a year, viz. in February and August. The date, hour, place and object of the meeting shall be fixed by the Governor, and notice thereof shall be sent to each shareholder at least two weeks before the date of the meeting.

Article 39. An Extraordinary General Meeting of Shareholders shall be called in the following cases only. The date, hour and place shall be fixed by the Governor, and notice thereof, with the object of the meeting, shall be sent to each shareholder at least two weeks before the date of the meeting.

(1) When the Governor deems it necessary.

(2) When all the Auditors as a body require such a meeting, specifying the object for which the meeting is to be called.

(3) When shareholders representing in the aggregate at least one-fifth of the capital require such a meeting and present a written request in which the object of the meeting and the reason for its call are stated.

On receiving such requests as mentioned in Items 2 and 3 of the preceding paragraph, the Governor shall proceed to call the meeting within two weeks after such requests have been made.

Article 40. The voting power of a shareholder shall be one vote for each share held by him up to ten shares, and one vote for every ten shares over and above the first ten shares.

Article 41. A shareholder may cause a proxy to be present at the General Meeting of Shareholders, and, through him, exercise his right of voting, provided, however, that the proxy be either a legal proxy or a shareholder of the Bank.

The officials and employees of the Bank shall not, under any circumstances, be allowed to act as proxies except as legal proxies.

Article 42. All resolutions at a General Meeting of Shareholders shall be passed by a majority of the votes of the shareholders present.

In case of a tie, the chairman shall decide. But a resolution to alter the By-laws shall only be passed by a majority of the votes of the shareholders present and representing in the aggregate at least half the amount of the capital.

Article 43. Resolutions passed at a General Meeting of Shareholders shall be recorded in the Minutes of Resolutions, which shall be signed and sealed by the Governor, Deputy Governor, Directors, and Auditors. (Revised April 1918.)

Article 44. The List of Shareholders present at a General Meeting shall be signed and sealed by the Governor, Deputy Governor, Directors and Auditors, and be attached to the Minutes of Resolutions. (Revised April 1918.)

CHAPTER VI

Business

Article 45. The business of the Bank shall be as follows :

(1) Discounting of bills of exchange and other commercial bills.
(2) Collection of bills for companies, banks, or individual merchants, who are regular customers of the Bank.
(3) Dealing in bills of exchange with or without documents.
(4) Making of loans on security of a reliable nature.
(5) Receiving of deposits or making of advances in current accounts.
(6) Safe custody of gold and silver coins, other precious metals, and documents.
(7) Buying and selling of gold and silver bullion, and exchange of coins and moneys.
(8) Trust business. (Added April 1918.)

The Bank may, besides the business mentioned in the preceding paragraph, purchase, according to the requirements of business, national loan bonds, local loan bonds, and other negotiable bonds of a reliable nature as defined by the Governor-General of Chosen.

Article 46. The Bank may, in addition to the business mentioned in the preceding Article, engage in the following business subject to the sanction of the Governor-General of Chosen :

(1) Making of loans to public bodies without security.
(2) Acting as agent of other banks.

Article 47. The Bank may also transact business concerning the receipts and disbursements of Treasury money when so entrusted by the Bank of Japan.

Article 48. The Bank shall not be allowed to engage in any business not provided for in these By-laws except under orders of the Governor-General of Chosen.

Article 49. The Bank shall not be allowed to possess any movables

or immovables except those necessary to business or those which have come into the possession of the Bank in satisfaction of its claims.

The movables taken over by the Bank in satisfaction of its claims shall be sold within six months, and the immovables within a year. Such sale may, however, be postponed if there are no purchasers, or, should there be purchasers, if the prices offered are not acceptable, always subject to the sanction of the Governor-General of Chosen.

Article 50. The Bank shall not grant loans under any circumstances to the officials or employees of the Bank.

CHAPTER VII

Bank Notes

Article 51. The Bank shall issue bank notes.

Article 52. The notes of the Bank shall be exchanged for gold coin or Bank of Japan notes any time during business hours at the head office and branches. The exchange at the branches may, however, be postponed pending arrival of reserves from the head office.

Article 53. The Bank shall provide the same amount of reserve in gold coin, gold and silver bullion, or Bank of Japan notes, as that of the notes issued : provided, however, that the silver bullion shall not exceed one-quarter of the whole amount of the reserve.

The Bank may, in addition to the issue on the reserve mentioned in the preceding paragraph, issue notes on the security of national loan bonds, or of other bonds or commercial bills of a reliable nature, to the extent of 50 million yen. (Revised April 1918.)

Article 54. Further, according to the condition of the market, the Bank may, in addition to the issue provided for in the preceding Article, issue notes on the security of such bonds or bills as mentioned in the second paragraph of the preceding Article, always subject to the sanction of the Governor-General of Chosen.

Article 55. The value to be placed on gold and silver bullion held in reserve, and on national loan bonds and other bonds held as security mentioned in the preceding two Articles, shall be fixed with the sanction of the Governor-General of Chosen.

Article 56. The Bank shall publish in the Official Gazettes a weekly average return on the amount of the notes issued and of the reserves held against such notes.

CHAPTER VIII

Accounts

Article 57. The business terms of the Bank shall be from January to June, and from July to December. At the end of each business term accounts shall be balanced.

After the balancing of accounts mentioned in the preceding paragraph, the Governor shall submit to the Ordinary General Meeting of Shareholders an inventory, a balance sheet, a report on the Bank's business, an account of profits and losses, and proposals relating to the distribution of profit.

Article 58. With regard to the manner in which profits shall be distributed, the net profit, obtained by deducting business and other expenses and losses from the gross profits, shall be distributed as follows :

(1) To the reserve fund for providing against losses ... ... 8 per cent. or more.

(2) To the reserve fund for equalising dividends ... ... 8 per cent. or more.

(3) To bonuses and allowances for officials ... ... 10 per cent. or less.

(4) The balance left, after deducting the amounts appropriated to the preceding three items from the net profit plus the amount brought forward from the preceding term, shall be distributed at the rate of 6 per cent. per annum on the paid-up capital.

If there is any balance left, after deducting all the amounts appropriated according to the preceding paragraph from the net profit plus the amount brought forward from the preceding term, such balance shall be distributed as additional dividends on the paid-up capital, or be set aside as special reserve, or be carried to the next term.

If the balance left, after deducting the amounts appropriated to Items 1, 2 and 3 in the first paragraph of this Article from the net profit, exceeds the rate of 12 per cent. per annum on the paid-up

capital, half the amount of such excess shall be paid to the Government.

Article 59. Until the amount of the profit to be distributed as dividend by the Bank has reached the rate of 6 per cent. per annum for each business term on the shares other than those taken by the Government, no dividend shall be paid on those taken by the Government, but the whole amount shall be distributed as dividend on the other shares.

Article 60. If the dividend by the Bank does not reach the rate of 6 per cent. per annum on the shares other than those taken by the Government, the Bank shall be subsidised by the Government by the amount necessary to enable the dividend to reach that rate for a period of five years computed from the last day of the inaugurating term.

Article 61. If the dividend by the Bank does not reach the rate of 6 per cent. per annum on all its shares, a dividend of 6 per cent. shall first be paid on the shares other than those taken by the Government, and the balance on those taken by the Government.

Article 62. The Bank shall distribute profits to its shareholders only after the sanction of the Governor-General of Chosen has been obtained for such distribution.

The profits shall be distributed to shareholders who are such on the day of the General Meeting at which such distribution has been resolved upon.

The date for the payment of dividends shall be fixed by the Governor and be notified to the shareholders.

Supplementary Provisions

Article 63. Of the capital of the Bank, 10 million yen was added by virtue of the resolution passed at the General Meeting of Shareholders held on February 20, 1917, 20 million yen by virtue of that at the General Meeting on August 20, 1918, and 40 million yen by virtue of that at the General Meeting on February 17, 1920; in either of the first and second cases, 30,000 new shares with the face value of 3 million yen, and in the third case 20,000 shares with the face value of 2 million yen were issued above par. (Added February 1917, and revised August 1918 and February 1920.)

STATEMENT OF CONDITION AT THE CLOSE OF BUSINESS ON JUNE 30, 1936

Assets

	Yen
Cash on Hand	99,024,406·69
Deposits and Other Sums due to the Bank	12,372,316·86
Bullion and Foreign Money	15,327,908·87
Bills Bought	28,352,906·85
Loans and Discounts	452,798,822·15
Bonds and Debentures	183,908,306·86
Customers' Liabilities for Acceptances	15,805,612·08
Bank Premises, Furniture, etc.	10,633,456·08
Uncalled Capital	15,000,000·00
Total	833,223,736·44

Liabilities

		Yen
Capital Subscribed		40,000,000·00
Reserve Funds		7,301,026·57
Bank Notes Issued:		
Specie Reserve	104,983,219·25	
Security Reserve	55,414,107·55	
		160,397,326·80
Deposits		365,763,082·02
Government Account		80,805,000·00
Bills Payable, Bills Rediscounted and Other Sums Due by the Bank		154,822,721·34
Acceptances		15,805,612·08
Dividend Unclaimed		73,710·56
Outstanding Branch Account		7,094,056·29
Balance Brought over from Last Account		222,604·17
Net Profit for the Half Year		938,596·61
Total		833,223,736·44

STATEMENT OF CONDITION AT THE CLOSE OF BUSINESS ON DECEMBER 31, 1936

ASSETS

	Yen
Cash on Hand	119,266,516·59
Deposits and Other Sums Due to the Bank ...	13,150,280·64
Bullion and Foreign Money	15,401,427·45
Bills Bought	28,819,297·65
Loans and Discounts	552,464,844·57
Bonds and Debentures	225,943,250·01
Customers' Liabilities for Acceptances ...	18,343,161·85
Bank Premises, Furniture, etc.	10,634,476·38
Uncalled Capital	15,000,000·00
Total	999,023,256·04

LIABILITIES

		Yen
Capital Subscribed		40,000,000·00
Reserve Funds		7,701,026·57
Bank Notes Issued :		
Specie Reserve ...	123,269,040·98	
Security Reserve ...	87,983,153·97	
		211,252,194·95
Deposits		458,344,954·07
Government Account		80,995,000·00
Bills Payable, Bills Rediscounted and Other Sums Due by the Bank		169,848,596·28
Acceptances		18,343,161·85
Dividend Unclaimed		76,421·31
Outstanding Branch Account		11,302,294·40
Balance Brought over from Last Account ...		226,200·78
Net Profit for the Half Year		933,405·83
Total		999,023,256·04

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